



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

**中国航油(新加坡)股份有限公司**

Incorporated in the Republic of Singapore  
Company Registration No.: 199303293Z

**LETTER TO SHAREHOLDERS**

in relation to

- (1) **THE PROPOSED RENEWAL OF, AND AMENDMENTS TO, THE GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS; AND**
- (2) **THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE.**

Independent Financial Adviser in relation to the Proposed Renewal of,  
and Amendments to, the General Mandate for Interested Person Transactions



**CIMB**  
**CIMB Bank Berhad (13491-P)**  
Singapore Branch  
(Incorporated in Malaysia)

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## DEFINITIONS

In this Letter, the following definitions shall apply throughout unless the context otherwise requires or unless otherwise stated:

### Companies

- “Bluesky”** : China National Aviation Fuel South China Bluesky Corporation (华南蓝天航空油料有限公司), a subsidiary of CNAFCL
- “BP”** : BP p.l.c., an indirect Controlling Shareholder of the Company
- “BP Group”** : BP and its associates (as defined in the Listing Manual) (i.e. any of its subsidiaries, its holding company, any subsidiary of its holding company, and any corporation in which BP and such other company or companies, taken together, have an interest (direct or indirect) in 30% or more of that corporation’s equity capital)
- “BPIA”** : BP Investments Asia Limited, an indirect subsidiary of BP and a Controlling Shareholder of the Company
- “BPS”** : BP Singapore Pte. Limited, an indirect subsidiary of BP
- “CAO” or “Company”** : China Aviation Oil (Singapore) Corporation Ltd
- “CAO Group” or “Group”** : The Company and its unlisted subsidiaries (i.e. which are not listed on the SGX-ST or an approved exchange), and the unlisted (as defined herein) associated companies of the Company over which the Company and its subsidiaries, or the Company and its subsidiaries and its interested persons, have control
- “CIMB Bank”** : CIMB Bank Berhad, Singapore Branch
- “CNAF”** : 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
- “CNAFCL”** : China National Aviation Fuel Corporation Ltd (中国航空油料有限责任公司), a subsidiary of CNAF
- “CNAF Finance”** : China National Aviation Fuel Finance Co.; Ltd (中国航油集团财务有限公司), a subsidiary of CNAF
- “CNAF Group”** : CNAF and its associates (as defined in the Listing Manual) (i.e. any of its subsidiaries, its holding company, any subsidiary of its holding company and any corporation in which CNAF and such other company or companies, taken together, have an interest (direct or indirect) in 30% or more of that corporation’s equity capital)

<b>“CNAF HKR”</b>	:	CNAF Hong Kong Refuelling Limited (中国航油香港供油有限公司), an associate (as defined in the Listing Manual) of CNAF
<b>“CNAF Logistics”</b>	:	China National Aviation Fuel Logistics Co., Ltd (中国航油集团物流有限公司), a subsidiary of CNAF
<b>“LandOil”</b>	:	China National Aviation Fuel Petroleum Co., Ltd (中国航油集团石油有限公司), a subsidiary of CNAF
<b>“SPIA”</b>	:	Shanghai Pudong International Airport Aviation Fuel Supply Co., Ltd (上海浦东国际机场航空油料有限责任公司), a 33%-owned associated company of the Company
<b>“TSN-PEK”</b>	:	China National Aviation Fuel TSN-PEK Pipeline Transportation Centre (中航油津京管道运输中心)
<b>“TSN-PEKCL”</b>	:	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), the successor-in-title to TSN-PEK, a 49%-owned associated company of the Company and a 51%-owned subsidiary of CNAF Logistics

#### General

<b>“2011-2014 Collaboration Agreement”</b>	:	The long-term collaboration agreement entered into between the Company and BPS dated 12 October 2010 which covers, <i>inter alia</i> , (a) the Shared Pool and (b) the provision of Services by BPS to the Company (as supplemented and amended by the First Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement)
<b>“2013 EGM”</b>	:	The extraordinary general meeting of the Company held on 25 April 2013
<b>“2012 Term Contracts”</b>	:	The four (4) term contracts entered into between the Company and BPS dated 30 December 2011 relating to the supply of aviation fuel for the duration of one (1) year from 1 January 2012 to 31 December 2012
<b>“2013 Term Contracts”</b>	:	The three (3) term contracts entered into between the Company and BPS dated 1 February 2013 relating to the supply of aviation fuel for the 2013 Term Contracts Period
<b>“2013 Term Contracts Period”</b>	:	The period from 1 February 2013 to 31 December 2013
<b>“AGM”</b>	:	The forthcoming 20 <sup>th</sup> annual general meeting of the Company, notice of which is set out on pages 37 to 42 of the Summary Report 2013
<b>“Applicable Threshold”</b>	:	Has the meaning ascribed to it in paragraph 7.1 of <b>Annex II</b> to this Letter

<b>“Audit Committee”</b>	:	The audit committee of the Company, comprising Independent Directors, Mr Ang Swee Tian, Dr Wang Kai Yuen and Mr Liu Fuchun, and non-independent, Non-Executive Directors, Dr Zhao Shousen and Mr Alan Haywood, as at the date of this Letter
<b>“Average Barrel Price”</b>	:	The yearly average market price per barrel of KERO, which shall be the arithmetic average of the mean of the daily high and low quotations for KERO under the heading “FOB SINGAPORE – MARKET LOCATION” as published in Platts Asia-Pacific/Arab Gulf Marketscan, effective for the calendar month prior to the date of the relevant transaction
<b>“Board”</b>	:	The board of Directors of the Company
<b>“BPIA Directors”</b>	:	Mr Alan Haywood and Mr Chen Liming, both of whom are non-independent, Non-Executive Directors of the Company
<b>“C8”</b>	:	BPS in its capacity as administrator under the 2011-2014 Collaboration Agreement and the Term Contracts
<b>“CDP”</b>	:	The Central Depository (Pte) Limited
<b>“CFR”</b>	:	The acronym for the Incoterm “Cost and Freight” which indicates that the seller/exporter/manufacturer clears the goods for export and is responsible for the costs for transport of the goods to the port of destination. The buyer bears the risk of loss of the goods once the goods pass the ship’s rail at the port of shipment (and not destination)
<b>“CNAF Directors”</b>	:	Mr Sun Li (Chairman of the Company), Mr Meng Fanqiu (Chief Executive Officer/Executive Director of the Company), Dr Zhao Shousen (non-independent, Non-Executive Director of the Company) and Mr Luo Qun (non-independent, Non-Executive Director of the Company)
<b>“Code”</b>	:	The Singapore Code on Take-overs and Mergers
<b>“Companies Act”</b>	:	The Companies Act (Chapter 50 of Singapore)
<b>“Control”</b>	:	The capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of the Company
<b>“Controlling Shareholder”</b>	:	In relation to a listed company, a person who: <ul style="list-style-type: none"> <li>(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</li> <li>(b) in fact exercises Control over the company</li> </ul>

<b>“Deposit Banks”</b>	:	Has the meaning ascribed to it in paragraph 2.2.2 of this Letter
<b>“Derivative Financial Instruments”</b>	:	Derivative financial instruments including all futures and swaps products available in the oil and freight markets
<b>“Director”</b>	:	A director of the Company as at the date of this Letter
<b>“EPS”</b>	:	Earnings per Share
<b>“Executive Director”</b>	:	A Director who is an employee of and performs an executive function for the Company
<b>“First Supplemental Agreement”</b>	:	The supplemental agreement to the 2011-2014 Collaboration Agreement entered into between the Company and BPS dated 30 December 2011
<b>“FOB”</b>	:	The acronym for the Incoterm “Free on Board”, which indicates that delivery is effected by the seller when the goods pass the ship’s rail at the named port of shipment. Accordingly, the seller clears the goods for export, and all costs and risks of loss of or damage to the goods from that port are borne by the buyer
<b>“FY”</b>	:	Financial year ended or ending on 31 December
<b>“Income Tax Act”</b>	:	The Income Tax Act (Chapter 134 of Singapore)
<b>“Incoterms”</b>	:	The International Commercial Terms as developed and issued by the International Chamber of Commerce, and <b>“Incoterm”</b> means any one of such terms
<b>“Independent Directors”</b>	:	The Directors who are considered independent for the purpose of making a recommendation to Shareholders on the renewal of, and amendments to, the IPT Mandate, namely, Dr Wang Kai Yuen, Mr Liu Fuchun and Mr Ang Swee Tian, and <b>“Independent Director”</b> means any one of them
<b>“Investee Companies”</b>	:	Interested Persons in which the CAO Group has an equity investment
<b>“Interested Person Transactions”</b>	:	Transactions proposed to be entered into between the Group and the Interested Persons
<b>“Interested Persons”</b>	:	For the purposes of the IPT Mandate, the CNAF Group and the BP Group, and <b>“Interested Person”</b> means any one of them

<b>"IPT Mandate"</b>	:	<p>(a) For the purposes of this Letter, excluding <b>Annexes II and III</b> to this Letter, the Shareholders' general mandate pursuant to Chapter 9 of the Listing Manual permitting the Company, its subsidiaries and associated companies who are considered to be "<b>entities at risk</b>" under Chapter 9 of the Listing Manual or any of them, to enter into Interested Person Transactions with the Interested Persons, which was last renewed at the 2013 EGM; and</p> <p>(b) for the purposes of <b>Annexes II and III</b> to this Letter, the Shareholders' general mandate pursuant to Chapter 9 of the Listing Manual permitting the Company, its subsidiaries and associated companies who are considered to be "<b>entities at risk</b>" under Chapter 9 of the Listing Manual or any of them, to enter into Interested Person Transactions with the Interested Persons, proposed to be renewed, with amendments, at the AGM</p>
<b>"KERO"</b>	:	The abbreviation of "kerosene" as published in Platts Asia-Pacific/Arab Gulf Marketscan under "FOB SINGAPORE – MARKET LOCATION"
<b>"Latest Practicable Date"</b>	:	The latest practicable date prior to the printing of this Letter, being 7 March 2014
<b>"Letter"</b>	:	This letter to Shareholders dated 28 March 2014
<b>"Listing Manual"</b>	:	The Listing Manual of the SGX-ST, as amended, modified or supplemented from time to time
<b>"Listing Rules"</b>	:	The listing rules of the SGX-ST set out in the Listing Manual
<b>"Market Day"</b>	:	A day on which the SGX-ST is open for trading in securities
<b>"Maximum Price"</b>	:	Has the meaning ascribed to it in paragraph 3.3.4 of this Letter
<b>"MOPS"</b>	:	Has the meaning ascribed to it in paragraph 3.1.1 of <b>Annex II</b> to this Letter
<b>"Non-Executive Director"</b>	:	A Director (including an Independent Director) of the Company, as the case may be, who is not an Executive Director
<b>"NTA"</b>	:	Net tangible assets
<b>"Off-Market Purchases"</b>	:	Has the meaning ascribed to it in paragraph 3.3.3 of this Letter
<b>"On-Market Purchases"</b>	:	Has the meaning ascribed to it in paragraph 3.3.3 of this Letter



<b>“One-Year Period”</b>	:	The period of one year from 1 January 2014 to 31 December 2014
<b>“OTC”</b>	:	Has the meaning ascribed to it in paragraph 3.2.2 of <b>Annex II</b> to this Letter
<b>“Petroleum Products”</b>	:	Petroleum products including but not limited to aviation fuel, gasoil, fuel oil, crude oil and other petrochemicals
<b>“Pipeline Services Contract”</b>	:	The pipeline services contract dated 7 May 2008 entered into between TSN-PEKCL (as TSN-PEK’s successor-in-title) and CNAFCL, and approved by Shareholders on 9 January 2009
<b>“PRC”</b>	:	The People’s Republic of China
<b>“PRC Term Contract”</b>	:	The Term Contract entered into between the Company and C8 in relation to the supply by C8 to the Company of aviation fuel to certain destinations in the PRC
<b>“Profit-Sharing Arrangement”</b>	:	An arrangement between member(s) of the CAO Group and member(s) of the BP Group to pool together certain Petroleum Products for onward sale and to share the profits and/or losses generated from such Petroleum Products, under which the losses of the member(s) of the CAO Group may, where appropriate, be capped at an amount to be agreed among the relevant member(s) of the CAO Group and the relevant member(s) of the BP Group. In the case of the 2011-2014 Collaboration Agreement, <b>“Profit-Sharing Arrangement”</b> means the sharing of profits and/or losses generated from the Term Contracts in respect of the Shared Pool in accordance with the terms of the 2011-2014 Collaboration Agreement, under which the losses of the Company are capped at US\$1,000,000 per annum
<b>“Relevant Period”</b>	:	The period commencing from the date on which the last annual general meeting was held and expiring on the date the next annual general meeting is held or is required by law to be held, whichever is the earlier, after the date the resolution relating to the Share Purchase Mandate is passed
<b>“Risk Management Committee”</b>	:	The risk management committee of the Company, comprising the Non-Executive Directors, namely Mr Alan Haywood (non-independent BPIA Director), Dr Zhao Shousen (non-independent CNAF Director) and Mr Ang Swee Tian (Independent Director) as at the date of this Letter, set up for the purposes of assisting the Board in fulfilling its oversight and approval responsibilities relating to its risk management framework and policies, as well as market, credit, operational, compliance and all other risk concerns
<b>“ROE”</b>	:	Return on equity

<b>“Second Supplemental Agreement”</b>	:	The supplemental agreement to the 2011-2014 Collaboration Agreement entered into between the Company and BPS dated 31 December 2012
<b>“Securities Account”</b>	:	A securities account maintained by a depositor with CDP but does not include a securities sub-account maintained with a depository agent
<b>“Securities and Futures Act”</b>	:	The Securities and Futures Act (Chapter 289 of Singapore)
<b>“Senior Executives”</b>	:	The senior executives of the CAO Group who, for the purposes of undertaking the review procedures described in paragraph 6 of <b>Annex II</b> to this Letter (Review Procedures for Interested Person Transactions), are the chief executive officer, chief financial officer, chief operating officer, head of finance, deputy head of finance, head of trading, head of risk management, deputy head of risk management and assistant to the chief executive officer (or any position equivalent to the foregoing and with similar roles, duties and responsibilities), of any of the members of the CAO Group, as at the date of this Letter, and/or such other senior management personnel tasked to undertake the functions of the foregoing senior management positions from time to time
<b>“Services”</b>	:	Services that the member(s) of the BP Group may provide to the CAO Group from time to time, whereby the member(s) of the BP Group share(s) the benefit of its contacts, expertise or knowledge with the CAO Group or where efficiencies and economies of scale can be achieved by the member(s) of the BP Group and the CAO Group through the provision of services by the former to the latter, including, without limitation, services relating to risk management, information-sharing, marketing, training, secondment of staff and other corporate functions
<b>“SGX-ST”</b>	:	Singapore Exchange Securities Trading Limited
<b>“Share Purchase Mandate”</b>	:	Shareholders’ mandate to authorise the Directors to make purchases of Shares in accordance with the terms set out in this Letter as well as the rules and regulations set forth in the Companies Act and the Listing Manual
<b>“Shares”</b>	:	Ordinary shares in the capital of the Company
<b>“Shared Pool”</b>	:	The pool of specified cargoes of aviation fuel and gasoil supplied to CAO and BPS in accordance with the 2011-2014 Collaboration Agreement and the Term Contracts, which shall be managed jointly by CAO and BPS and administered by C8, and other transactions entered into by C8, under the terms of the 2011-2014 Collaboration Agreement

<b>“Shareholders”</b>	:	The registered holders of Shares, except that where the registered holder is CDP, the term <b>“Shareholders”</b> shall, in relation to those Shares, mean the depositors whose Securities Accounts are credited with Shares
<b>“SPIA Supply Agreement”</b>	:	The supply agreement entered into by the Company and SPIA dated 21 February 2010 relating to the terms of the supply arrangements between the Company and SPIA, the term of which was extended to 20 March 2014 by mutual agreement between the parties thereto
<b>“Substantial Shareholder”</b>	:	A substantial shareholder of the Company as defined under Section 2(6) of the Securities and Futures Act
<b>“Summary Report 2013”</b>	:	Summary Report of the Company for FY2013
<b>“Supply Agreements”</b>	:	The supply agreement entered into by the Company and CNAFCL dated 23 March 2010 relating to the terms of the supply arrangements between the Company and CNAFCL, the term of which was previously renewed and extended to 6 August 2014, and which was further renewed and extended to 6 August 2016 by mutual agreement between the parties thereto; and the supply agreement entered into by the Company and Bluesky dated 1 April 2010 relating to the terms of the supply arrangements between the Company and Bluesky, which was previously renewed and extended to 1 April 2014, and which was also further renewed and extended to 1 April 2016 by mutual agreement between the parties thereto; in each case, on the same terms
<b>“Term Charter Party Agreement”</b>		The term charter party agreement entered into by the Company and CNAF Logistics dated 10 February 2014 relating to the provision of freight services by CNAF Logistics in respect of the transportation of Petroleum Products for the Term Charter Period
<b>“Term Charter Period”</b>	:	Has the meaning ascribed to it in paragraph 2.2.3(a) of this Letter
<b>“Term Charter Supply Chain Services”</b>	:	Has the meaning ascribed to it in paragraph 2.2.3(a) of this Letter
<b>“Term Contracts”</b>	:	The five (5) term contracts entered into pursuant to the 2011-2014 Collaboration Agreement relating to the supply by C8 to the Company or to BPS, as the case may be, of aviation fuel and gasoil to certain destinations in the Middle East, Asia Pacific and Europe
<b>“Third Supplemental Agreement”</b>	:	The supplemental agreement to the 2011-2014 Collaboration Agreement entered into between the Company and BPS dated 31 December 2013

<b>“Treasury Services”</b>	:	Has the meaning ascribed to it in paragraph 2.2.2 of this Letter
<b>“%”</b>	:	Per centum or percentage
<b>“S\$” and “cents”</b>	:	Singapore dollars and cents, respectively, the lawful currency of the Republic of Singapore
<b>“US\$” and “cents”</b>	:	U.S. 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.

The terms **“associate”**, **“associated company”**, **“entity at risk”**, **“interested person”**, **“chief executive officer”** and **“approved exchange”** shall have the meanings ascribed to them respectively in the Listing Manual.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing any one gender shall, where applicable, include the other genders where applicable. References to persons shall, where applicable, include corporations.

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

Any reference in this Letter 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 and used in this Letter shall, where applicable, have the meaning ascribed to it under the Companies Act or the Listing Manual, as the case may be, unless otherwise provided. Summaries of the provisions of any laws and regulations (including the Listing Manual) contained in this Letter are of such laws and regulations (including the Listing Manual) as at the Latest Practicable Date.

Any discrepancies in the tables in this Letter between the listed amounts and the totals thereof are due to rounding.

Unless otherwise stated, the following closing exchange rate as at the Latest Practicable Date has been used in this Letter:

S\$1: US\$0.791

The exchange rate as set out above is used for illustration purposes only and should not be construed as a representation that the relevant amounts have been or could be converted at the rate above or at any other rate.

# CHINA AVIATION OIL (SINGAPORE) CORPORATION LTD

Incorporated in the Republic of Singapore  
Company Registration No.: 199303293Z

## Board of Directors:

Sun Li	(Chairman – Non-Executive, Non-Independent)
Wang Kai Yuen	(Deputy Chairman/Lead Independent Director – Non-Executive, Independent)
Meng Fanqiu	(Chief Executive Officer/Executive Director – Executive, Non-Independent)
Ang Swee Tian	(Director – Non-Executive, Independent)
Chen Liming	(Director – Non-Executive, Non-Independent)
Alan Haywood	(Director – Non-Executive, Non-Independent)
Liu Fuchun	(Director – Non-Executive, Independent)
Luo Qun	(Director – Non-Executive, Non-Independent)
Zhao Shousen	(Director – Non-Executive, Non-Independent)

## Registered Office:

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

28 March 2014

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

Dear Sir/Madam

## LETTER TO SHAREHOLDERS

- (1) **THE PROPOSED RENEWAL OF, AND AMENDMENTS TO, THE GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS; AND**
- (2) **THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE.**

### 1. INTRODUCTION

#### 1.1 AGM

We refer to the notice of annual general meeting of the Company (“**AGM**”) dated 28 March 2014 convening the AGM to be held on 24 April 2014, and in particular:

- (a) the ordinary resolution number 8 under the heading “Special Business”, in relation to the proposed renewal of, and amendments to the IPT Mandate; and
- (b) the ordinary resolution number 9 under the heading “Special Business”, in relation to the renewal of the Share Purchase Mandate,

as further explained in paragraphs 2 and 3 respectively below.

#### 1.2 Letter

The purpose of this Letter is to provide Shareholders with the relevant information relating to, and to seek Shareholders’ approval at the AGM for the proposals referred to in paragraph 1.1 above.

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

If you have sold or transferred all your ordinary shares in the capital of the Company, you should immediately forward this Letter to the purchaser or the transferee or to the stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

The SGX-ST assumes no responsibility for the accuracy of any of the statements made, reports contained or opinions expressed in this Letter.

## **2. THE PROPOSED RENEWAL OF, AND AMENDMENTS TO, THE IPT MANDATE**

### **2.1 The Proposed Renewal of the IPT Mandate**

Under Chapter 9 of the Listing Manual, a general mandate for transactions with interested persons is subject to annual renewal. The IPT Mandate was last renewed at the 2013 EGM and will continue to be in force until the conclusion of the AGM. Accordingly, it is proposed that the IPT Mandate be renewed, with the proposed amendments as set out below, at the AGM, to take effect until the conclusion of the next annual general meeting of the Company or the date on which the next annual general meeting of the Company is required to be held, whichever is the earlier.

General information relating to Chapter 9 of the Listing Manual is set out in **Annex I** to this Letter.

The proposed renewal of the IPT Mandate, with the proposed amendments as set out below, will authorise the Company, its subsidiaries and associated companies that are considered to be “entities at risk” within the meaning of Chapter 9 of the Listing Manual, to enter, in the ordinary course of business, into any of the mandated transactions with specified classes of the Company’s interested persons, provided that such transactions are made on normal commercial terms and are not prejudicial to the Company and its minority Shareholders, and are entered into in accordance with the review procedures for such transactions. As BPIA and CNAF are Controlling Shareholders, members of the BP Group and members of the CNAF Group constitute interested persons of the Company. Information on the shareholdings of BPIA and CNAF in the Company can be found in paragraph 6.2.

### **2.2 The Proposed Amendments to the IPT Mandate**

#### **2.2.1 The 2011-2014 Collaboration Agreement and the Term Contracts**

The 2011-2014 Collaboration Agreement provides for an annual review of the prices under the Term Contracts. Further to the review of, among others, the prices and the contribution of each of the Company and BPS in respect of 2011, being the first year of collaboration under the 2011-2014 Collaboration Agreement, the Company and BPS had agreed that under the collaboration arrangement provided for in the 2011-2014 Collaboration Agreement, the intended objectives such as information sharing and volume commitments were not satisfactorily achieved. Accordingly, as announced by the Company on 31 December 2011, the Company and BPS entered into the First Supplemental Agreement, pursuant to which the 2011-2014 Collaboration Agreement and the Term Contracts were suspended for the duration of one (1) year from 1 January 2012 to 31 December 2012. The Company and BPS concurrently entered into the 2012 Term Contracts. On 31 December 2012, the Company announced that the Company and BPS had reached an agreement to continue with the suspension of the 2011-2014 Collaboration Agreement (including the Term Contracts entered into thereunder) for the duration of one (1) year from 1 January 2013 to 31 December 2013, and to enter into new term contracts in relation to the supply of aviation fuel. Following this, the Company and BPS entered into the Second

Supplemental Agreement and the 2013 Term Contracts. The 2013 Term Contracts commenced on 1 February 2013 and expired on 31 December 2013. The Company and BPS subsequently agreed to continue with the suspension of the 2011-2014 Collaboration Agreement (including the Term Contracts entered into thereunder but excluding the Services) for the One-Year Period, through the execution of the Third Supplemental Agreement. The 2011-2014 Collaboration Agreement (including the Term Contracts entered into thereunder) will expire on 31 December 2014, unless earlier terminated by the mutual agreement of the parties or otherwise in accordance with the 2011-2014 Collaboration Agreement.

Accordingly, the Company proposes to amend the IPT Mandate to reflect the suspension of the 2011-2014 Collaboration Agreement (excluding the Services) and the Term Contracts for the One-Year Period.

As stated at paragraph 2.2.2 of the circular to Shareholders dated 27 March 2013 in relation to the existing IPT Mandate, the 2013 Term Contracts were entered into for the purpose of providing for a different collaboration framework between the Company and BPS involving the sale and purchase of aviation fuel on a proprietary basis, as compared to the Profit-Sharing Arrangement under the 2011-2014 Collaboration Agreement, and it was then envisaged that the collaboration model under the 2013 Term Contracts will provide the Company with the flexibility to independently source for, and decide on the pricing of, the supply of aviation fuel to it, which it was not able to under the 2011-2014 Collaboration Agreement. It was also stated that upon the expiry of the 2013 Term Contracts, the Company and BPS would review and assess the operational effectiveness of the trading collaboration arrangement under the 2013 Term Contracts to consider if parties should continue with a similar trading collaboration model. As at the date of this Letter, the 2013 Term Contracts have not been renewed or extended. However, in the event that parties enter into term contracts which provide for trading collaboration arrangements in respect of the supply of aviation fuel, assuming the IPT Mandate (as proposed to be amended) is renewed at the AGM, it is proposed that the review procedures which were applicable to the 2013 Term Contracts under the existing IPT Mandate should be equally applicable to transactions conducted under such term contracts, assuming the agreed premiums applicable for such term contracts during the relevant terms of the term contracts have been reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with paragraph 6.2(a) of the IPT Mandate. Similarly, as was the case for the 2013 Term Contracts, it is proposed that if the purchase and supply of aviation fuel under such term contracts is conducted at such predetermined terms and pricing and in line with the terms of the said term contracts which has been reviewed by the Audit Committee in accordance with paragraph 6.2 of the IPT Mandate, then such individual supply and purchase transactions conducted thereunder should not be separately subject to transactional review procedures nor taken into account and aggregated together with prior Interested Person Transactions entered into with BPS for the purposes of determining if the relevant thresholds under paragraph 7 of the IPT Mandate have been crossed (and hence not be subject to further review and approval by the Audit Committee prior to the entry into such transactions).

Accordingly, the Company proposes to amend paragraphs 6.2 and 6.7 of the IPT Mandate to reflect this approach.

### **2.2.2 Treasury Services**

The Company proposes to amend the IPT Mandate to include a new category of transactions (“**Treasury Services**”) relating to:

- (a) interest-bearing placement of funds by the CAO Group with CNAF Finance;



- (b) the borrowing of funds by the CAO Group from CNAF Finance;
- (c) the provision of loans by the CAO Group to Investee Companies;
- (d) the grant of guarantees by the CAO Group in favour of third parties for the purposes of the Investee Companies; and
- (e) the provision of entrust loan arrangement services by CNAF Finance to the CAO Group required for the purpose of the provision of loans by the CAO Group to Investee Companies based in the PRC.

CNAF Finance has an arrangement with members of the CNAF Group pursuant to which such members may place their excess funds with CNAF Finance from time to time, in respect of which CNAF Finance will pay interest at rates which are agreed between parties. In turn, CNAF Finance, which holds primary accounts with banks (“**Deposit Banks**”) such as Agricultural Bank of China Co, Ltd and PingAn Bank Co., Ltd, will from time to time place such consolidated funds with the Deposit Banks. CNAF Finance is typically able to obtain relatively preferential terms from the Deposit Banks than what would have been generally available to the individual members, given the relatively larger size of the placements, which benefit CNAF Finance will be able to pass on to such members.

CNAF Finance has extended this arrangement to the CAO Group, which is part of the CNAF Group, and from time to time, the CAO Group may also place funds with CNAF Finance for which the CAO Group will receive interest from CNAF Finance on such amounts. The CAO Group may be able to obtain more competitive rates and quotes in an expeditious manner from CNAF Finance for such placement of funds, than what would have been generally available to the CAO Group in the market.

Additionally, the CAO Group may from time to time borrow funds from CNAF Finance. The CAO Group may be able to benefit from more competitive rates and quotes for such borrowing of funds provided in an expeditious manner by CNAF Finance, than what would have been generally available to the CAO Group in the market.

All funds placed with CNAF Finance by the CAO Group will be guaranteed by a corporate guarantee provided by CNAF.

The CAO Group may also from time to time provide loans to the Investee Companies and grant guarantees in favour of third parties for the purposes of the Investee Companies. For example, CNAF HKR is an associate of the CNAF Group, and is therefore considered an Interested Person. From time to time, the CAO Group may be required to provide loans to CNAF HKR or grant guarantees in favour of third parties for the purposes of CNAF HKR, which may or may not be in proportion of the CAO Group’s equity interest in CNAF HKR. The CAO Group will look to charge interest for the provision of such loans to Investee Companies, at rates which are higher than what is offered in the market, and will also charge fees as appropriate for the grant of such guarantees in favour of third parties for the purposes of the Investee Companies.

The CAO Group is required under PRC law to engage the services of a duly licensed financial institution in the PRC (referred to as “entrust loan arrangement services”) in order to provide loans to Investee Companies based in the PRC. CNAF Finance is duly licensed to provide such entrust loan arrangement services in the PRC. The CAO Group may engage CNAF Finance for the provision of such entrust loan arrangement services in connection with such loans if CNAF Finance’s charges are no higher than what the CAO Group would otherwise have been able to secure in the market.



It is therefore proposed that the Treasury Services be included in the IPT Mandate in order to allow the CAO Group to benefit from such arrangements with Interested Persons.

In connection with the inclusion of Treasury Services in the IPT Mandate, it is proposed that:

- (a) paragraph 7.1 of the IPT Mandate be amended (as reflected in **Annex V**) to include the threshold limit of US\$500 million which would be applicable to the Treasury Services under the IPT Mandate;
- (b) paragraph 7.2 of the IPT Mandate be amended (as reflected in **Annex V**) to include the basis for calculating the value of a transaction relating to Treasury Services for determining if the relevant threshold limit has been exceeded; and
- (c) new paragraph 6.6 of the IPT Mandate be added (as reflected in **Annex V**) to set out the applicable review procedures relating to such Treasury Services under the IPT Mandate.

### 2.2.3 Other Amendments

The Company is also proposing the following amendments to the IPT Mandate:

- (a) To amend paragraphs 3.1.2, 6.6 and 7.1 of the IPT Mandate (as reflected in **Annex V**) in relation to the provision of freight services by CNAF Logistics:

As stated in paragraph 3.1.2 of the existing IPT Mandate, rather than chartering ships on individual voyage basis, in certain instances it may be more efficient operationally and financially to enter into a time charter agreement in respect of a number of physical movements of oil products, or to enter into shipping arrangements with other suppliers on a collaborative basis. Also, as stated in paragraph 3.1.2 of the existing IPT Mandate, where the CAO Group buys Petroleum Products on FOB basis and sells on CFR basis, the CAO Group may be required to engage CNAF Logistics to provide the freight services for the physical movement of such Petroleum Products. Further to discussions between the CAO Group, CNAFCL and Bluesky in connection with the supply of Petroleum Products by the CAO Group to CNAFCL and Bluesky, each of CNAFCL and Bluesky have indicated to the CAO Group that for the period between 1 May 2014 and 30 April 2015 (the “**Term Charter Period**”), Petroleum Products to be supplied by the CAO Group (which the CAO Group buys on FOB basis) may be required to be sold to CNAFCL and Bluesky on CFR basis rather than on FOB basis. In this regard, as CNAF Logistics is the only shipping service provider which is able to meet the technical specifications and the delivery schedules to specified ports of destination stipulated by CNAFCL and Bluesky, the CAO Group will be required to obtain freight services from CNAF Logistics for the transportation of the said Petroleum Products to CNAFCL and Bluesky.

To this end, CAO and CNAF Logistics have entered into the Term Charter Party Agreement pursuant to which freight services will be provided to the CAO Group at certain pre-agreed rates for the transportation of Petroleum Products to CNAFCL and Bluesky for the Term Charter Period. It is intended that the freight charges incurred by the CAO Group under this arrangement will be correspondingly reflected in the increased pricing at which the CAO Group is to sell the Petroleum Products to CNAFCL and Bluesky.

Accordingly, it is proposed that paragraph 3.1.2 of the IPT Mandate in relation to the purchase of shipping and logistics services be amended to specifically include the Term Charter Party Agreement. In connection with the same, it is further proposed that paragraph 7.1 of the IPT Mandate in relation to the applicable threshold for such Supply Chain Services be amended from US\$7 million to US\$48 million for all Supply Chain Services received pursuant to the Term Charter Party Agreement (“**Term Charter Supply Chain Services**”), which better reflects the estimated value of freight services to be obtained from CNAF Logistics under the Term Charter Party Agreement. The existing threshold of US\$7 million will remain applicable for all Supply Chain Services other than the Term Charter Supply Chain Services. The new threshold limit of US\$48 million for Term Charter Supply Chain Services was determined by the Company based on the terms of the Term Charter Party Agreement as well as the CAO Group’s estimated number of cargoes and shipping volume of Petroleum Products to be transported to CNAFCL and Bluesky for the Term Charter Period, which was based on the historical number of cargoes and shipping volumes for the year 2013.

As mentioned above, given that CNAF Logistics is the only shipping service provider which is able to meet the technical specifications and the delivery schedules to specified ports of destination stipulated by CNAFCL and Bluesky, there are no comparable quotes which can be obtained from other shipping service providers for the transportation of Petroleum Products to CNAFCL and Bluesky. Accordingly, the Company is also proposing to amend paragraph 6.6(b) of the existing IPT Mandate on review procedures for transactions with Interested Persons to clarify that in such situations, the transaction will be reviewed and approved by any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction.

Further, as the Term Charter Party Agreement and the Supply Chain Services contemplated to be provided by CNAF Logistics thereunder fall within the scope of the existing IPT Mandate, the Company had applied the review procedures under paragraph 6.6(b) of the existing IPT Mandate prior to entering into the Term Charter Party Agreement, save that the Audit Committee (instead of two (2) Senior Executives) had reviewed and approved the terms of the Term Charter Party Agreement prior to entry. The Company is proposing to state in the IPT Mandate proposed to be renewed, with amendments, at the AGM, for the sake of clarity, that as the Term Charter Party Agreement was reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with paragraph 6.6(b) of the existing IPT Mandate, accordingly, subjecting individual transactions under the Term Charter Party Agreement to further review and approval by the Audit Committee during the Term Charter Period to protect the interests of the Company and its minority Shareholders or to ensure that such transactions are on normal commercial terms, would not be necessary;

- (b) to amend paragraphs 3.2.1, 6.1, 6.2 and 6.7 of the IPT Mandate to remove all references to the 2013 Term Contracts which expired on 31 December 2013. The 2013 Term Contracts were not extended or renewed; and
- (c) to update the list of Interested Persons set out in **Annex III** to include CNAF HKR and CNAF Finance, members of the CNAF Group.

**2.2.4** The full text of the IPT Mandate, as proposed to be renewed and amended, is set out in **Annex II** to this Letter. The proposed amendments to the IPT Mandate showing insertions in underline and deletions in strikethrough, are set out in **Annex V** to this Letter for Shareholders' ease of reference.

### **2.3 Independent Financial Adviser's Opinion**

CIMB Bank has been appointed as the independent financial adviser to advise the Independent Directors on the IPT Mandate, as proposed to be renewed and amended and set out in **Annex II** to this Letter.

CIMB Bank is of the opinion that the methods and procedures under the IPT Mandate, with the proposed amendments, as set out in **Annex II** to this Letter, if adhered to, are sufficient to ensure that the Interested Person Transactions carried out thereunder will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders. The letter dated 28 March 2014 from CIMB Bank to the Independent Directors is reproduced in **Annex IV** to this Letter.

### **2.4 Statement of the Audit Committee**

Having considered, *inter alia*, the terms, the rationale and benefits of the IPT Mandate, as proposed to be renewed and amended and set out in **Annex II** to this Letter, the Audit Committee is satisfied that the review procedures proposed by the Company, as set out in paragraph 6 of **Annex II** to this Letter for determining the transaction prices and terms of the Interested Person Transactions, if adhered to, are sufficient to ensure that the Interested Person 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. The non-independent, Non-Executive Directors on the Audit Committee, Mr Alan Haywood and Dr Zhao Shousen, being a BPIA Director and a CNAF Director respectively, have abstained from the Audit Committee's review and determination in relation to the above.

### **2.5 Validity Period of the IPT Mandate**

If approved by Shareholders at the AGM, the IPT Mandate, with the proposed amendments, will take effect from the date of the passing of the resolution for the renewal of, and amendments to, the IPT Mandate, to be proposed at the AGM, and shall apply in respect of Interested Person Transactions entered or to be entered into from the date of the AGM until the conclusion of the next annual general meeting of the Company or the date on which the next annual general meeting of the Company is required to be held, whichever is the earlier, unless revoked or varied by the Company in a general meeting.

### **2.6 Disclosure**

Pursuant to Chapter 9 of the Listing Manual, the Company will disclose in its annual report the aggregate value of the Interested Person Transactions entered into under the IPT Mandate, as renewed and amended, during the financial year under review, and in the annual reports of subsequent financial years during which the IPT Mandate, as renewed and amended, is in force. In addition, the Company will announce the aggregate value of the Interested Person Transactions entered into pursuant to the IPT Mandate, as renewed and amended, for the financial periods which it is required to report pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report. These disclosures will be in the form set out in Rule 907 of the Listing Manual.

### **3. THE PROPOSED RENEWAL OF THE SHARE PURCHASE MANDATE**

#### **3.1 Background**

It is a requirement under the Companies Act that a company which wishes to purchase or otherwise acquire its own shares has to obtain the approval of its shareholders to do so at a general meeting of its shareholders. In this regard, the Share Purchase Mandate was approved by Shareholders at the extraordinary general meeting of the Company held on 18 September 2009, and last renewed at the 2013 EGM, to authorise the Directors to make purchases of Shares on the terms of the Share Purchase Mandate. Such Share Purchase Mandate will, unless renewed again, expire on the date of the AGM.

The Company proposes to renew the mandate for the Company to make on-market and off-market purchases of Shares from time to time of up to ten per cent. (10%) of the total number of issued Shares excluding treasury shares as at the date of the AGM in accordance with the terms set out below.

#### **3.2 Rationale for the Share Purchase Mandate**

The rationale for the Company to undertake the purchase or acquisition of its Shares is as follows:

- (a) in managing its business, the Group always strives to increase Shareholder value by improving, *inter alia*, the ROE of the Group and a Share purchase is one way by which ROE may be enhanced;
- (b) the Share Purchase Mandate will give the Company an easy mechanism to facilitate the return of surplus cash in excess of its requirements taking into account its growth and expansion plans, in an expedient and cost-efficient manner;
- (c) the Share Purchase Mandate will provide the Company the flexibility to adjust the Company's share capital structure and may, subject to market conditions and funding arrangements at the time, lead to an enhancement of the EPS and/or NTA per Share; and
- (d) the use of treasury shares for the purposes of the Company's employee share-based incentive schemes in lieu of issuing new Shares would mitigate the dilution impact (if any) on existing Shareholders which may arise from the operation of such schemes.

While the Share Purchase Mandate would authorise a purchase or acquisition of Shares up to the said ten per cent. (10%) limit during the period referred to in paragraph 3.3.2 below, Shareholders should note that purchases or acquisitions of Shares pursuant to the Share Purchase Mandate may not be carried out to the full ten per cent. (10%) limit as authorised and the purchases or acquisitions of Shares pursuant to the Share Purchase Mandate will be made only as and when the Directors consider it to be in the best interests of the Company and/or Shareholders and in circumstances which they believe will not result in any material adverse effect on the financial position of the Company or the Group, or result in the Company being delisted from the SGX-ST. The Directors will use their best efforts to ensure that after a purchase or acquisition of Shares pursuant to the Share Purchase Mandate, the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity or adversely affect the orderly trading and listing status of the Shares on the SGX-ST.

### **3.3 Details of the Share Purchase Mandate**

The authority and limitations placed on purchases of Shares by the Company under the Share Purchase Mandate, if renewed at the AGM, are the same as previously approved by Shareholders at the 2013 EGM, and are summarised below:

#### **3.3.1 Maximum Number of Shares**

Only Shares which are issued and fully paid-up may be purchased by the Company. The total number of Shares that may be purchased is limited to that number of Shares representing not more than ten per cent. (10%) of the total number of issued Shares (excluding treasury shares) as at the date of the AGM, unless the Company has, at any time during the Relevant Period, reduced its share capital by a special resolution under Section 78C of the Companies Act, or the court has, at any time during the Relevant Period, made an order under Section 78I confirming the reduction of share capital of the Company, in which event the total number of Shares shall be taken to be the total number of Shares as altered by the special resolution of the Company or the order of the court, as the case may be. Any Shares which are held as treasury shares will be disregarded for purposes of computing the ten per cent. (10%) limit.

Purely for illustrative purposes, on the basis of 860,183,628 Shares in issue as at the Latest Practicable Date (excluding treasury shares) and assuming that no further Shares are issued or repurchased and held as treasury shares on or prior to the date of the AGM, not more than 86,018,362 Shares (representing ten per cent. (10%) of the total number of issued Shares excluding treasury shares as at that date) may be purchased or acquired by the Company pursuant to the Share Purchase Mandate.

#### **3.3.2 Duration of Authority**

The authority conferred on the Directors pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the AGM and expiring on:

- (a) the date on which the next annual general meeting is held or required by law to be held;
- (b) the date on which the authority conferred by the Share Purchase Mandate is revoked or varied by the Shareholders in a general meeting; or
- (c) the date on which purchases or acquisitions of Shares pursuant to the Share Purchase Mandate are carried out to the full extent mandated,

whichever is the earliest.

The Share Purchase Mandate may be renewed at each annual general meeting or other general meeting of the Company. When seeking the approval of Shareholders for the renewal of the Share Purchase Mandate, the Company is required to disclose details pertaining to purchases or acquisitions of Shares pursuant to the Share Purchase Mandate made during the previous twelve (12) months, including the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for such purchases of Shares, where relevant, and the total consideration paid for such purchases.

### 3.3.3 Manner of Purchase

Purchases of Shares may be made on the SGX-ST (“**On-Market Purchases**”) and/or otherwise than on the SGX-ST, in accordance with an equal access scheme (“**Off-Market Purchases**”).

On-Market Purchases refer to purchases of Shares by the Company transacted through the SGX-ST’s Central Limit Order Book trading system through one or more duly licensed stockbrokers appointed by the Company for the purpose.

Off-Market Purchases refer to purchases of Shares by the Company made under an equal access scheme or schemes for the purchase of Shares from Shareholders. The Directors may impose such terms and conditions, which are consistent with the Share Purchase Mandate, the Listing Rules and the Companies Act, as they consider fit in the interests of the Company in connection with, or in relation to, an equal access scheme or schemes. Under the Companies Act, an Off-Market Purchase must satisfy all the following conditions:

- (a) offers for the purchase or acquisition of issued Shares shall be made to every person who holds issued Shares to purchase or acquire the same percentage of their issued Shares;
- (b) all of those persons shall be given a reasonable opportunity to accept the offers made to them; and
- (c) the terms of all the offers shall be the same, except that there shall be disregarded:
  - (i) differences in consideration attributable to the fact that offers may relate to Shares with different accrued dividend entitlements;
  - (ii) (if applicable) differences in consideration attributable to the fact that offers relate to Shares with different amounts remaining unpaid; and
  - (iii) differences in the offers introduced solely to ensure that each Shareholder is left with a whole number of Shares.

In addition, pursuant to the Listing Rules, in making an Off-Market Purchase in accordance with an equal access scheme, the Company must issue an offer document to all Shareholders which must contain at least the following information:

- (i) the terms and conditions of the offer;
- (ii) the period and procedures for acceptances;
- (iii) the reasons for the proposed purchase or acquisition of Shares;
- (iv) the consequences, if any, of purchases or acquisitions of Shares by the Company that will arise under the Code or other applicable take-over rules;
- (v) whether the purchases or acquisitions of Shares, if made, could affect the listing of the Shares on the SGX-ST;
- (vi) details of any purchases or acquisitions of Shares made by the Company in the previous twelve (12) months (whether On-Market Purchases or Off-Market



Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for such purchases of Shares, where relevant, and the total consideration paid for such purchases; and

- (vii) whether the shares purchased or acquired by the Company will be cancelled or kept as treasury shares.

### **3.3.4 Maximum Purchase Price**

The purchase price (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) to be paid for the Shares will be determined by the Directors or a committee of Directors that may be constituted for the purposes of effecting purchases or acquisitions of Shares by the Company under the Share Purchase Mandate. However, the purchase price to be paid for the Shares pursuant to the purchases or acquisitions of the Shares must not exceed:

- (a) in the case of an On-Market Purchase, five per cent. (5%) above the average of the closing market prices of the Shares over the last five (5) Market Days, on which transactions in the Shares were recorded, before the day on which the On-Market Purchase was made by the Company, which is deemed to be adjusted in accordance with the Listing Rules for any corporate action that occurs after the relevant period of five (5) Market Days; and
- (b) in the case of an Off-Market Purchase pursuant to an equal access scheme, ten per cent. (10%) above the average of the closing market prices of the Shares over the last five (5) Market Days on which transactions in the Shares were recorded, before the day on which the Company makes an announcement of an offer under the Off-Market Purchase scheme,

in either case, excluding related expenses of the purchase or acquisition (the “**Maximum Price**”).

For the purposes of the above:

“**day on which the Company makes an announcement of an offer**” means the day on which the Company announces its intention to make an offer for the purchase or acquisition of Shares from the Shareholders, stating therein the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

### **3.3.5 Status of Purchased Shares**

Any Share which is purchased or acquired by the Company is treated as cancelled immediately on purchase or acquisition (and all rights and privileges attached to that Share will expire on cancellation) unless such Share is held by the Company as a treasury share. All cancelled Shares will be automatically delisted by the SGX-ST, and (where applicable) all certificates in respect thereof will be cancelled and destroyed by the Company as soon as reasonably practicable following settlement of any such purchase. Accordingly, the total number of issued Shares will be diminished by the number of Shares purchased or acquired by the Company and which are not held as treasury shares. Prior Board approval will be sought if any Share to be purchased pursuant to the Share Purchase Mandate will be held in treasury. It is presently intended by the Company that

Shares which are purchased or acquired by the Company will be held as treasury shares, up to the maximum number of treasury shares permitted by law to be held by the Company.

### **3.3.6 Treasury Shares**

Under the Companies Act, Shares purchased or acquired by the Company may be held or dealt with as treasury shares. Some of the key provisions on treasury shares under the Companies Act are as follows:

- (a) Maximum Holdings – The number of Shares held as treasury shares cannot at any time exceed ten per cent. (10%) of the total number of issued Shares;
- (b) Voting and Other Rights – The Company shall be registered as a member in respect of the treasury shares but shall not have the right to attend or vote at meetings and/or to receive any dividends in respect of the treasury shares. However, the allotment of shares as fully paid bonus shares in respect of treasury shares is allowed. Also, a subdivision or consolidation of any treasury share into treasury shares of a smaller amount is allowed so long as the total value of the treasury shares after the subdivision or consolidation is the same as before, as the case may be; and
- (c) Disposal and Cancellation – The Company may dispose of treasury shares at any time in the following ways:
  - (i) sell the treasury shares for cash;
  - (ii) transfer the treasury shares for the purposes of or pursuant to an employees' share scheme;
  - (iii) transfer the treasury shares as consideration for the acquisition of shares in or assets of another company or assets of a person;
  - (iv) cancel the treasury shares; or
  - (v) sell, transfer or otherwise use the treasury shares for such other purposes as may be prescribed by the Minister for Finance.

### **3.3.7 Source of Funds**

The Company may only apply funds for the purchase or acquisition of Shares in accordance with the Articles of Association of the Company and the applicable laws and regulations in Singapore. The Company may not purchase or acquire its Shares for a consideration other than in cash or for settlement otherwise than in accordance with the trading rules of the SGX-ST.

The Company may purchase or acquire its own Shares out of capital, as well as from its distributable profits, provided that:

- (a) the Company is able to pay its debts in full at the time it purchases or acquires the Shares and will be able to pay its debts as they fall due in the normal course of business in the twelve (12) months immediately following the purchase; and
- (b) the value of the Company's assets is not less than the value of its liabilities (including contingent liabilities) and will not after the purchase of Shares become less than the value of its liabilities (including contingent liabilities), having regard to the most



recent financial statements of the Company and all other circumstances that the Directors or management of the Company know or ought to know affect or may affect the value of the Company's assets or estimates of liabilities that are reasonable in the circumstances.

The Company intends to use its internal sources of funds and/or obtain or incur external borrowings to finance purchases or acquisitions of its Shares. The Directors do not propose to exercise the Share Purchase Mandate or rely on external borrowings to finance purchases or acquisitions of its Shares to such an extent that it would materially affect the financial position, working capital requirements or investment ability of the Group.

### **3.3.8 Financial Effects**

The financial effects on the Group and the Company arising from purchases or acquisitions of Shares which may be made pursuant to the Share Purchase Mandate would depend on factors such as, *inter alia*, whether the Shares are purchased or acquired out of capital and/or profits, the aggregate number of Shares purchased or acquired, the purchase prices paid at the relevant time, and the amount (if any) borrowed by the Company to fund the purchases or acquisitions.

Where the purchase of Shares is made out of distributable profits, such purchase (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) will correspondingly reduce the amount available for the distribution of cash dividends by the Company. Where the consideration paid by the Company for the purchase or acquisition of Shares is made out of capital, the amount available for the distribution of cash dividends by the Company will not be reduced.

Where the Company chooses not to hold the purchased Shares in treasury, such Shares shall be cancelled. The Company shall:

- (a) reduce the amount of its share capital where the Shares were purchased or acquired out of the capital of the Company;
- (b) reduce the amount of its profits where the Shares were purchased or acquired out of the profits of the Company; or
- (c) reduce the amount of its share capital and profits proportionately where the Shares were purchased or acquired out of both the capital and the profits of the Company,

by the total amount of the purchase price paid by the Company for the Shares cancelled. Where the purchased Shares are held in treasury, the total number of issued Shares will remain unchanged.

As at the Latest Practicable Date, the issued and paid-up share capital of the Company comprised 866,183,628 Shares (out of which 6,000,000 Shares were held in treasury). As the Company can only hold ten per cent. (10%) of its Shares being 86,618,362 Shares in treasury, the exercise in full of the Share Purchase Mandate would result in the purchase or acquisition of 80,618,362<sup>1</sup> Shares if all will be held in treasury, and 86,018,362 Shares if all will be cancelled. For the purposes of illustration and comparison only, the Company has assumed that pursuant to the Share Purchase Mandate, it will purchase or acquire the

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<sup>1</sup> Section 761(1) of the Companies Act states that the aggregate number of shares held as treasury shares shall not at any time exceed ten per cent. (10%) of the total number of shares of the company at that time. As at the Latest Practicable Date, the Company has 6,000,000 Shares held in treasury. Hence, although the Share Purchase Mandate provides for up to 86,018,362 Shares to be purchased or acquired by the Company, the maximum number of Shares that the Company can purchase or acquire and hold in treasury is 80,618,362 Shares.

smaller number of Shares, i.e. 80,618,362 Shares, instead of the entire ten per cent. (10%) of the total number of issued Shares excluding treasury shares, i.e. 86,018,362 Shares.

It is not possible for the Company to realistically calculate or quantify the impact of purchases or acquisitions of Shares that may be made pursuant to the Share Purchase Mandate on the NTA and EPS as the resultant effect would depend on, *inter alia*, the aggregate number of Shares purchased or acquired, whether the purchase or acquisition is made out of capital or profits, the purchase price paid for such Shares and the amount borrowed (if any) by the Company to fund the purchase or acquisition of the Shares and whether the Shares purchased or acquired are cancelled or held as treasury shares.

For illustration purposes only and based on the assumptions set out below:

- (i) in the case of On-Market Purchases by the Company and assuming that the Company purchases or acquires 80,618,362 Shares, the maximum amount of funds required for the purchase (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) assuming a Maximum Price of S\$1.078 which is five per cent. (5%) above the average of the closing market prices of the Shares for the five (5) Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date, is approximately S\$86,906,594;
- (ii) in the case of Off-Market Purchases by the Company and assuming that the Company purchases or acquires 80,618,362 Shares, the maximum amount of funds required for the purchase (excluding brokerage, stamp duties, commission, applicable goods and services tax and other related expenses) assuming a Maximum Price of S\$1.130 which is ten per cent. (10%) above the average closing market prices of the Shares for the last five (5) Market Days on which the Shares were traded on the SGX-ST immediately preceding the Latest Practicable Date, is approximately S\$91,098,749; and
- (iii) the consideration for the purchase or acquisition of the Shares is funded equally by internal funds and borrowings after allowing for working capital, and interest payable on additional borrowings is at the rate of 2.36% per annum before adjusting for tax, and based on the audited financial statements of the Group for FY2013, the effects of:
  - (A) the purchase or acquisition of 80,618,362 Shares by the Company in an On-Market Purchase or Off-Market Purchase and held as treasury shares; and
  - (B) the purchase or acquisition of 80,618,362 Shares by the Company in an On-Market Purchase or Off-Market Purchase and cancelled (where the 6,000,000 Shares held in treasury as at the Latest Practicable Date are also cancelled),

on the financial position of the Company and the Group are as follows:

**(A) On-Market or Off-Market Purchase of 80,618,362 Shares – held as treasury shares**

As at 31 December 2013	The Company			Group		
	Before Share Purchase US\$'000	After On-Market Purchase US\$'000	After Off-Market Purchase US\$'000	Before Share Purchase US\$'000	After On-Market Purchase US\$'000	After Off-Market Purchase US\$'000
Share capital	215,573	215,573	215,573	215,573	215,573	215,573
Reserves	170,016	170,016	170,016	313,471	313,471	313,471
	385,589	385,589	385,589	529,044	529,044	529,044
Treasury shares	(5,482)	(74,225)	(77,541)	(5,482)	(74,225)	(77,541)
<b>Shareholders' funds</b>	<b>380,107</b>	<b>311,364</b>	<b>308,048</b>	<b>523,562</b>	<b>454,819</b>	<b>451,503</b>
<b>NTA<sup>(1)</sup></b>	<b>378,473</b>	<b>309,730</b>	<b>306,414</b>	<b>520,747</b>	<b>452,004</b>	<b>448,688</b>
Current Assets	1,182,849	1,148,478	1,146,820	1,289,850	1,255,479	1,253,821
Current Liabilities	963,686	998,058	999,716	1,045,100	1,079,472	1,081,130
Working Capital	219,163	150,420	147,104	244,750	176,007	172,691
<b>Total Borrowings</b>	<b>–</b>	<b>34,372</b>	<b>36,030</b>	<b>28,609</b>	<b>62,981</b>	<b>64,639</b>
Number of Shares ('000) <sup>(2)</sup>	866,184	866,184	866,184	866,184	866,184	866,184
Number of Shares (less treasury shares) ('000)	860,184	779,565	779,565	860,184	779,565	779,565
<b>Financial Ratios</b>						
NTA per Share (US cents) <sup>(3)</sup>	44.00	39.73	39.31	60.54	57.98	57.56
Annualised Return on equity (%)	16.92	20.66	20.88	13.41	15.44	15.55
Basic EPS (US cents) <sup>(4)</sup>	7.48	8.25	8.25	8.16	9.01	9.01
Gearing ratio (times) <sup>(5)</sup>	0.00	0.11	0.12	0.05	0.14	0.14
Current ratio (times) <sup>(6)</sup>	1.23	1.15	1.15	1.23	1.16	1.16

**Notes:**

- (1) NTA refers to net assets less goodwill on consolidation and intangible assets.
- (2) Includes a total of 86,618,362 Shares held in treasury, computed based on ten per cent. (10%) of the total number of Shares in issue as at the Latest Practicable Date.
- (3) NTA per Share is based on 779,565,266 Shares which has excluded a total of 86,618,362 Shares held in treasury.
- (4) EPS is based on 779,565,266 Shares, the weighted average number of Shares, which has excluded a total of 86,618,362 Shares held in treasury.
- (5) Gearing ratio equals total borrowings divided by Shareholders' funds.
- (6) Current ratio equals current assets divided by current liabilities.

As illustrated above, the purchase of Shares made out of the capital of the Company and held as treasury shares would have the effect of reducing the working capital and NTA of the Company and the Group. The consolidated NTA per Share of the Group as at 31 December 2013 would decrease from 60.54 US cents to 57.98 US cents in the case of an On-Market Purchase and from 60.54 US cents to 57.56 US cents in the case of an Off-Market Purchase. No adjustment was made to take into account the reduction in dividend paid out during the year from the purchase of Shares.

**(B) On-Market or Off-Market Purchase of 80,618,362 Shares – cancelled**

As at 31 December 2013	The Company			Group		
	Before Share Purchase US\$'000	After On-Market Purchase US\$'000	After Off-Market Purchase US\$'000	Before Share Purchase US\$'000	After On-Market Purchase US\$'000	After Off-Market Purchase US\$'000
Share capital	215,573	141,348	138,032	215,573	141,348	138,032
Reserves	164,534	170,016	170,016	307,989	313,471	313,471
	380,107	311,364	308,048	523,562	454,819	451,503
Treasury shares	–	–	–	–	–	–
<b>Shareholders' funds</b>	<b>380,107</b>	<b>311,364</b>	<b>308,048</b>	<b>523,562</b>	<b>454,819</b>	<b>451,503</b>
<b>NTA<sup>(1)</sup></b>	<b>378,473</b>	<b>309,730</b>	<b>306,414</b>	<b>520,747</b>	<b>452,004</b>	<b>448,688</b>
Current Assets	1,182,849	1,148,478	1,146,820	1,289,850	1,255,479	1,253,821
Current Liabilities	963,686	998,058	999,716	1,045,100	1,079,472	1,081,130
Working Capital	219,163	150,420	147,104	244,750	176,007	172,691
<b>Total Borrowings</b>	<b>–</b>	<b>34,372</b>	<b>36,030</b>	<b>28,609</b>	<b>62,981</b>	<b>64,639</b>
Number of Shares (Less Shares cancelled) ('000)	860,184	779,565	779,565	860,184	779,565	779,565
<b>Financial Ratios</b>						
NTA per Share (US cents) <sup>(2)</sup>	44.00	39.73	39.31	60.54	57.98	57.56
Annualised Return On Equity (%)	16.92	20.66	20.88	13.41	15.44	15.55
Basic EPS (US cents) <sup>(3)</sup>	7.48	8.25	8.25	8.16	9.01	9.01
Gearing ratio (times) <sup>(4)</sup>	0.00	0.11	0.12	0.05	0.14	0.14
Current ratio (times) <sup>(5)</sup>	1.23	1.15	1.15	1.23	1.16	1.16

**Notes:**

- (1) NTA refers to net assets less goodwill on consolidation and intangible assets.
- (2) NTA per Share is based on 779,565,266 Shares, which figure excludes a total of 86,618,362 Shares cancelled.
- (3) EPS is based on 779,565,266 Shares, which figure excludes a total of 86,618,362 Shares cancelled.
- (4) Gearing ratio equals total borrowings divided by Shareholders' funds.
- (5) Current ratio equals current assets divided by current liabilities.

As illustrated above, the purchase of Shares made out of the capital of the Company and the cancellation of such purchased Shares would have the effect of reducing the working capital and NTA of the Company and the Group. The consolidated NTA per Share of the Group as at 31 December 2013 would decrease from 60.54 US cents to 57.98 US cents in the case of an On-Market Purchase and from 60.54 US cents to 57.56 US cents in the case of an Off-Market Purchase. No adjustment was made to take into account the reduction in dividend paid out during the year from the purchase of Shares.

**Shareholders should note that the financial effects set out above are purely for illustrative purposes only. Although the proposed Share Purchase Mandate would authorise the Company to purchase or acquire up to ten per cent. (10%) of the total number of issued Shares excluding treasury shares, the Company may not necessarily purchase or acquire or be able to purchase or acquire the entire ten per cent. (10%) of the total number of issued Shares excluding treasury shares.**

### 3.3.9 Tax Implications

- (a) Where the Company uses its profits for the Share purchase:

Under Section 10J of the Income Tax Act, a company which buys back its own shares using its profits, and not its contributed capital, is regarded as having paid a dividend to the shareholders from whom the shares are acquired. As the Company has already moved into the one-tier corporate tax system, the provisions under Section 44 of the Income Tax Act do not apply to the Company. That is, the Company does not need to provide for the franking of the Share purchase in the same way as if paying a taxed dividend under the Section 44 imputation system. As such, there will not be any tax implications to the Company. The tax treatment of the receipt from a Share purchase in the hands of the Shareholders will depend on whether the disposal arises from an On-Market Purchase or an Off-Market Purchase.

Proceeds received by Shareholders who sell their Shares to the Company in On-Market Purchases through the normal ready counters will be treated for income tax purposes like any other disposal of shares and not as a dividend. Whether or not such proceeds are taxable in the hands of such Shareholders will depend on whether such proceeds are receipts of an income or capital nature in the hands of the respective Shareholders.

Proceeds received by Shareholders who sell their Shares to the Company in an Off-Market Purchase, where the Share purchase is made otherwise than on the SGX-ST, in accordance with an equal access scheme will be treated for income tax purposes as the receipt of a dividend which is tax exempt under the one-tier corporate tax system.

- (b) Where the Company uses its contributed capital for the Share purchase:

There will be no tax implications to the Company when it uses its contributed capital to buy back its Shares.

For Shareholders, proceeds received by them will be treated for income tax purposes like any other disposal of shares and not as a dividend. Whether or not such proceeds are taxable in the hands of such Shareholders will depend on whether such proceeds are receipts of an income or capital nature in the hands of the respective Shareholders.

**Shareholders should note that the foregoing is not to be regarded as advice on the tax position of any Shareholder. Shareholders who are in doubt as to their respective tax positions or the tax implications of Share purchases by the Company, or, who may be subject to tax whether in or outside Singapore, should consult their own professional advisers.**

### **3.3.10 Reporting Requirements**

Within thirty (30) days of the passing of a Shareholders' resolution to approve the purchases of Shares by the Company, the Company shall lodge a copy of such resolution with the Registrar of Companies.

The Company shall notify the Registrar of Companies within thirty (30) days of a purchase of Shares on the SGX-ST or otherwise. Such notification shall include details of the purchases including the date of the purchases, the total number of Shares purchased by the Company, the number of Shares cancelled and the number of Shares held as treasury shares, the Company's issued share capital before and after the purchase of Shares, the amount of consideration paid by the Company for the purchases, and such other information as required by the Companies Act.

The Listing Rules also specify that a listed company shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9:00 a.m. (a) in the case of an On-Market Purchase, on the Market Day following the day of purchase of any of its shares and (b) in the case of an Off-Market Purchase in accordance with an equal access scheme, by 9:00 a.m. on the second Market Day after the close of acceptances of the offer. Such notification shall include details of the maximum number of shares authorised for purchase, the date of purchase, the prices paid for the total number of shares purchased, the purchase price per share or the highest and lowest purchase price per share and the number of issued shares excluding treasury shares after purchase, in the form prescribed under the Listing Rules. The Company shall make arrangements with its stockbrokers to ensure that they provide the Company in a timely fashion the necessary information which will enable the Company to make the notifications to the SGX-ST.

The Company, upon undertaking any sale, transfer, cancellation and/or use of treasury shares, will comply with Rule 704(28) of the Listing Manual, which provides that an issuer must make an immediate announcement thereof, stating the following:

- (a) date of the sale, transfer, cancellation and/or use;
- (b) purpose of such sale, transfer, cancellation and/or use;
- (c) number of treasury shares sold, transferred, cancelled and/or used;
- (d) number of treasury shares before and after such sale, transfer, cancellation and/or use;
- (e) percentage of the number of treasury shares against the total number of Shares outstanding before and after such sale, transfer, cancellation and/or use; and
- (f) value of the treasury shares if they are used for a sale or transfer, or cancelled.

### 3.3.11 Listing Rules

Under the Listing Rules, a listed company may purchase its own shares by way of On-Market Purchases at a price per share which is not more than five per cent. (5%) above the average of the closing market prices of the shares over the last five (5) Market Days, on which transactions in the shares were recorded, before the day on which the purchases were made, which is deemed to be adjusted for any corporate action that occurs after the relevant period of five (5) Market Days.

The Maximum Price for a Share in relation to On-Market Purchases by the Company conforms to this restriction.

While the Listing Rules do not expressly prohibit any purchase of shares by a listed company during any particular time(s), because the listed company would be regarded as an “insider” in relation to any proposed purchase or acquisition of its issued shares, the Company will not undertake any purchase of Shares pursuant to the Share Purchase Mandate at any time after any matter or development of a price-sensitive nature has occurred or has been the subject of consideration and/or a decision of the Board until such price-sensitive information has been publicly announced. In particular, in line with the best practices on dealing in securities reflected under Rule 1207(19) of the Listing Manual, the Company will not purchase or acquire any Shares through On-Market Purchases during the period of:

- (a) one (1) month immediately preceding the announcement of the Company’s annual (full-year) results; and
- (b) two (2) weeks immediately preceding the announcement of the Company’s results for each of the first three (3) quarters of its financial year.

The Company is required under Rule 723 of the Listing Manual to ensure that at least ten per cent. (10%) of the total number of its Shares (excluding treasury shares) are in the hands of the public. The “public”, as defined under the Listing Manual, are persons other than the directors, chief executive officer, Substantial Shareholders or Controlling Shareholders of the Company and its subsidiaries, as well as the associates (as defined in the Listing Manual) of such persons.

As at the Latest Practicable Date, there are 245,373,774 Shares in the hands of the public (as defined above), representing 28.53% of the total number of Shares (excluding treasury shares), i.e. 860,183,628 Shares. Assuming that (i) the Company purchases its Shares through On-Market Purchases up to the full ten per cent. (10%) limit pursuant to the Share Purchase Mandate and all such Shares purchased are held by the public, and (ii) all Shares purchased by the Company are held as treasury shares, the number of Shares in the hands of the public would be reduced to 164,755,412 Shares, representing 21.13% of the total number of Shares (excluding treasury shares), i.e. 779,565,266 Shares. Accordingly, the Company is of the view that there is a sufficient number of Shares in issue held by public Shareholders which would permit the Company to undertake purchases or acquisitions of its Shares through On-Market Purchases up to the full ten per cent. (10%) pursuant to the proposed Share Purchase Mandate without affecting the listing status of the Shares on the SGX-ST, and that the number of Shares remaining in the hands of the public will not fall to such a level as to cause market illiquidity.



In undertaking any purchases of its Shares through On-Market Purchases, the Directors will use their best efforts to ensure that, notwithstanding such purchases, a sufficient number of Shares shall remain in public hands so that the Share purchase(s) will not:

- (i) adversely affect the listing status of the Shares on the SGX-ST;
- (ii) cause market illiquidity; or
- (iii) adversely affect the orderly trading of the Shares.

### **3.3.12 Obligation to Make a Take-over Offer**

Under Rule 14 of the Code, a person will be required to make a general offer for a public company if:

- (a) he acquires thirty per cent. (30%) or more of the voting rights of the company; or
- (b) he holds between thirty per cent. (30%) and fifty per cent. (50%) of the voting rights of the company and he increases his voting rights in the company by more than one per cent. (1%) in any six (6)-month period.

If, as a result of any purchase or acquisition by the Company of its Shares, the proportionate interest in the voting capital of the Company of a Shareholder and persons acting in concert with him increases, such increase will be treated as an acquisition for the purposes of Rule 14 of the Code. Consequently, a Shareholder or group of Shareholders acting in concert with a Director could obtain or consolidate effective control of the Company and become obliged to make a take-over offer for the Company under Rule 14 of the Code.

Under the Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal) co-operate, through the acquisition by any of them of shares in a company, to obtain or consolidate effective control of that company. Unless the contrary is established, the following persons, *inter alia*, will be presumed to be acting in concert with each other, namely:

- (i) a company with its parent company, subsidiaries, its fellow subsidiaries, any associated companies of the foregoing companies, any company whose associated companies include any of the foregoing companies, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing companies for the purchase of voting rights;
- (ii) a company with any of its directors (together with their close relatives, related trusts and any companies controlled by any of the directors, their close relatives and related trusts);
- (iii) a company with any of its pension funds and employee share schemes;
- (iv) a person with any investment company, unit trust or other fund whose investment such person manages on a discretionary basis, but only in respect of the investment account which such person manages;
- (v) a financial or other professional adviser, including a stockbroker, with its client in respect of the shareholdings of the adviser and the persons controlling, controlled by



or under the same control as the adviser and all the funds which the adviser manages on a discretionary basis, where the shareholdings of the adviser and any of those funds in the client total ten per cent. (10%) or more of the client's equity share capital;

- (vi) directors of a company, together with their close relatives, related trusts and companies controlled by any of the foregoing, which is subject to an offer or where they have reason to believe a bona fide offer for their company may be imminent;
- (vii) partners; and
- (viii) an individual, his close relatives, his related trusts, any person who is accustomed to act according to his instructions, companies controlled by any of the foregoing persons, and any person who has provided financial assistance (other than a bank in the ordinary course of business) to any of the foregoing persons and/or entities for the purchase of voting rights.

For this purpose, ownership or control of at least twenty per cent. (20%) but not more than fifty per cent. (50%) of the equity share capital of a company will be regarded as the test of associated company status.

The circumstances under which Shareholders (including Directors) and persons acting in concert with them respectively will incur an obligation to make a take-over offer under Rule 14 of the Code after a purchase or acquisition of Shares by the Company are set out in Appendix 2 of the Code.

In general terms, under Rule 14 and Appendix 2 of the Code, unless exempted, Directors and persons acting in concert with them will incur an obligation to make a take-over offer for the Company under Rule 14 of the Code if, as a result of the Company purchasing or acquiring its Shares, (A) the voting rights in the Company of such Directors and their concert parties would increase to thirty per cent. (30%) or more or (B) if the voting rights of such Directors and their concert parties fall between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Directors and their concert parties increase by more than one per cent. (1%) in any period of six (6) months. In calculating the percentages of voting rights of such Directors and their concert parties, treasury shares shall be excluded.

Under Appendix 2 of the Code, a Shareholder not acting in concert with the Directors will not incur an obligation to make a take-over offer for the Company under Rule 14 of the Code if, as a result of the Company purchasing or acquiring its Shares, the voting rights of such Shareholder in the Company increases to thirty per cent. (30%) or more, or, if the voting rights of such Shareholder fall between thirty per cent. (30%) and fifty per cent. (50%) of the Company's voting rights, the voting rights of such Shareholder would increase by more than one per cent. (1%) in any period of six (6) months. Such Shareholder need not abstain from voting in respect of the resolution authorising the Share Purchase Mandate.

**Shareholders who are in doubt as to their obligations, if any, to make a mandatory take-over offer under the Code as a result of any purchase or acquisition of Shares by the Company, are advised to consult their professional advisers and/or the Securities Industry Council and/or the relevant authorities at the earliest opportunity.**

Purely for illustrative purposes, on the basis of 860,183,628 Shares (excluding treasury shares) in issue as at the Latest Practicable Date, and assuming that no further Shares are issued on or prior to the AGM, not more than 86,018,362 Shares (representing ten per

cent. (10%) of the Shares in issue as at that date excluding treasury shares) may be purchased or acquired by the Company pursuant to the Share Purchase Mandate, if so approved by Shareholders at the AGM.

Assuming that such granted Share Purchase Mandate is validly and fully exercised prior to the next annual general meeting for the Company to purchase the maximum allowed number of Shares being 80,618,362<sup>2</sup> Shares (on the basis that there would have been no change to the number of Shares in issue at the time of such exercise) and that such purchased Shares are not acquired from the Substantial Shareholders, based on the Register of Substantial Shareholders of the Company as at the Latest Practicable Date, the percentage shareholdings of the Substantial Shareholders would be changed as follows:

Name of Substantial Shareholder	Shareholding Before Share Purchase			Shareholding After Share Purchase		
	Direct Interest <sup>#</sup>	Deemed Interest <sup>#</sup>	Total Interest <sup>#</sup>	Direct Interest <sup>#</sup>	Deemed Interest <sup>#</sup>	Total Interest <sup>#</sup>
	%	%	%	%	%	%
CNAF	–	51.31*	51.31	–	56.61	56.61
BPIA	20.17	–	20.17	22.25	–	22.25

\* CNAF is deemed to have an interest in 441,332,912 Shares, representing 51.31% of the total issued Shares in the Company (excluding treasury shares), held by DBS Vickers Securities (Singapore) Pte Ltd.

<sup>#</sup> Computation of percentage shareholdings excludes treasury shares.

Based on the information set out above, assuming that there is no change to the shareholding interests of the Substantial Shareholders since the Latest Practicable Date, none of the Substantial Shareholders referred to above are expected to incur an obligation to make a general offer to other Shareholders under the Code solely by reason of the Share Purchase Mandate.

### 3.3.13 Previous Share Purchases

There were no Share purchases made by the Company in the twelve (12) months immediately preceding the Latest Practicable Date.

## 4. SHAREHOLDERS WHO WILL ABSTAIN FROM VOTING

### The Proposed Renewal of, and Amendments to, the IPT Mandate

By virtue of their interests in the IPT Mandate, as proposed to be renewed and amended, each of CNAF and BPIA will abstain and have undertaken to ensure that their associates will abstain from voting on the ordinary resolution 8 relating to the proposed renewal of, and amendments to, the IPT Mandate at the AGM.

Further, each of CNAF and BPIA has agreed to decline to accept appointment as proxies to vote and attend at the AGM in respect of the ordinary resolution 8 relating to the proposed renewal of, and amendments to, the IPT Mandate, unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast.

<sup>2</sup> Please refer to footnote 1 above.

## 5. DIRECTORS WHO WILL ABSTAIN FROM VOTING

### The Proposed Renewal of, and Amendments to, the IPT Mandate

The BPIA Directors and the CNAF Directors do not hold any Shares as at the Latest Practicable Date. If they subsequently become Shareholders and are entitled to vote at the AGM, they will abstain from voting on the ordinary resolution 8 relating to the proposed renewal of, and amendments to, the IPT Mandate at the AGM.

They will also decline to accept appointment as proxy to vote and attend at the AGM in respect of the ordinary resolution 8 relating to the proposed renewal of, and amendments to, the IPT Mandate, unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast.

## 6. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE COMPANY

6.1 The interests of the Directors in the Shares, as extracted from the Register of Directors' Shareholding, as at the Latest Practicable Date, are set out below:

Name of Director	Direct Interest (No. of shares <sup>(1)</sup> )	%	Deemed Interest (No. of Shares <sup>(1)</sup> )	%
Ang Swee Tian	48,000	0.0056	–	–
Wang Kai Yuen	57,600	0.0067	120,000 <sup>(2)</sup>	0.0140

**Notes:**

(1) There are 860,183,628 issued Shares as at the Latest Practicable Date (excluding treasury shares).

(2) Held through spouse.

6.2 The interests of the Substantial Shareholders in the Shares as at the Latest Practicable Date are set out in the following:

Name of Controlling Shareholder	Direct Interest (No. of shares <sup>(1)</sup> )	%	Deemed Interest (No. of Shares <sup>(1)</sup> )	%
CNAF	–	–	441,332,912 <sup>(2)</sup>	51.31
BPIA	173,476,942	20.17	–	–

**Notes:**

(1) There are 860,183,628 issued Shares as at the Latest Practicable Date (excluding treasury shares).

(2) Held through DBS Vickers Securities (Singapore) Pte Ltd.

## 7. DIRECTORS' RECOMMENDATIONS

### 7.1 The Proposed Renewal of, and Amendments to, the IPT Mandate

The Independent Directors are of the opinion that the proposed renewal of, and amendments to, the IPT Mandate is in the best interests of the Company and not prejudicial to the interests of minority Shareholders. Accordingly, the Independent Directors recommend that Shareholders vote in favour of the ordinary resolution 8 relating to the proposed renewal of, and amendments to, the IPT Mandate at the forthcoming AGM.

## **7.2 The Proposed Renewal of the Share Purchase Mandate**

The Directors are of the opinion that the proposed renewal of the Share Purchase Mandate is in the best interests of the Company. Accordingly, the Directors recommend that Shareholders vote in favour of the ordinary resolution 9 relating to the proposed renewal of the Share Purchase Mandate at the forthcoming AGM.

## **8. DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors (including those who may have delegated detailed supervision of this Letter) collectively and individually accept full responsibility for the accuracy of the information given in this Letter and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Letter constitutes full and true disclosure of all material facts about the proposed renewal of, and amendments to, the IPT Mandate and the proposed renewal of the Share Purchase Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Letter misleading.

Where information contained in this Letter has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from these sources and/or reproduced in this Letter in its proper form and context.

## **9. CONSENT**

CIMB Bank has given and has not withdrawn its written consent to the issue of this Letter with the inclusion of its name and the letter dated 28 March 2014 from CIMB Bank to the Independent Directors (reproduced in **Annex IV** to this Letter) and all references thereto, in the form and context in which they appear in this Letter.

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

Sun Li  
Chairman

## ANNEX I

### GENERAL INFORMATION RELATING TO CHAPTER 9 OF THE LISTING MANUAL

#### SCOPE

Chapter 9 of the Listing Manual applies to transactions which an entity at risk proposes to enter into with a counterparty who is an interested person of the entity at risk.

#### DEFINITIONS

A “**controlling shareholder**” means a person who holds (directly or indirectly) 15% or more of the total number of issued shares excluding treasury shares in the listed company (provided that the SGX-ST may determine that a person who satisfies the foregoing is not a controlling shareholder) or one who in fact exercises control over the listed company.

A “**transaction**” includes (a) the provision or receipt of financial assistance, (b) the acquisition, disposal or leasing of assets, (c) the provision or receipt of services, (d) the issuance or subscription of securities, (e) the granting of or being granted options, and (f) the establishment of joint ventures or joint investments, whether or not in the ordinary course of business, and whether or not entered into directly or indirectly (for example, through one or more interposed entities).

An “**associate**” includes an immediate family member (that is, the spouse, child, adopted child, stepchild, sibling or parent) of such director, chief executive officer or controlling shareholder, the trustees of any trust of which such director, chief executive officer or controlling shareholder or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object, and any company in which such director, chief executive officer or controlling shareholder and his immediate family has an aggregate interest (directly or indirectly) of 30% or more, and, where a controlling shareholder is a corporation, “associate” means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more.

An “**associated company**” means a company in which at least 20% but not more than 50% of its shares are held by the listed company and/or the listed company’s subsidiaries.

An “**entity at risk**” means the issuer, any of its subsidiaries (other than subsidiaries that are listed on the SGX-ST or an approved exchange) or any of its associated companies (other than associated companies that are listed on the SGX-ST or an approved exchange or over which the listed group and/or its interested person(s) have no control).

An “**interested person**” means a director, chief executive officer or controlling shareholder of the listed company or an associate of such director, chief executive officer or controlling shareholder.

“**control**” means the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of a company.

#### GENERAL REQUIREMENTS

Except for certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested person and are hence excluded from the ambit of Chapter 9, immediate announcement, or immediate announcement and shareholders’

approval will be required in respect of transactions with interested persons if certain financial thresholds (which are based on the value of the transaction as compared with the listed company's latest audited consolidated net tangible assets), are reached or exceeded. In particular, shareholders' approval is required where:

- (a) the value of such transaction when aggregated with the values of all other transactions previously entered into with the same interested person (as defined in Chapter 9 of the Listing Manual) in the same financial year of the listed company is equal to or exceeds 5% of the latest audited consolidated net tangible assets of the listed company; or
- (b) the value of such transaction is equal to or exceeds 5% of the latest audited consolidated net tangible assets of the listed company.

#### **GENERAL MANDATE**

A listed company may seek a general mandate from its shareholders for recurrent transactions with interested persons of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses. A general mandate is subject to annual renewal.

## ANNEX II

### GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS

#### 1. RATIONALE FOR THE IPT MANDATE

The IPT Mandate is intended to facilitate transactions in the ordinary course of business of the CAO Group as described in paragraph 3 of this **Annex II** which are recurrent in nature and may be transacted from time to time with the Interested Persons provided that they are carried out on normal commercial (or, in the absence of other similar comparable transactions, commercially reasonable) terms and are not prejudicial to the interests of the Company and its minority Shareholders.

The IPT Mandate is intended to enhance the CAO Group's ability to pursue business opportunities which are time-sensitive in nature, and will eliminate the need for the Company to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders' approval for the entry by the CAO Group into such transactions. This will substantially reduce administrative time and expenses associated with the making of such announcements or the announcement and convening of general meetings from time to time, and allow manpower resources to be focused towards other corporate and business opportunities.

#### 2. CLASSES OF INTERESTED PERSONS

Under the IPT Mandate, the Interested Persons comprise:

- (a) members of the CNAF Group; and
- (b) members of the BP Group,

each of which is deemed to be an Interested Person that the Group will be transacting with.

The list of members of the CNAF Group and the BP Group and the types of transactions which the CAO Group intends to undertake pursuant to the IPT Mandate, is set out in **Annex III** to this Letter. Members of the BP Group and the CNAF Group which are nominated by the Interested Persons expressly named/listed in **Annex III** to enter into transactions with the CAO Group, are also deemed to be Interested Persons listed in **Annex III** with which the CAO Group may transact under the IPT Mandate. It is also to be noted that as the CNAF Group and the BP Group undertake internal restructuring exercises from time to time, the list of members from the respective groups as well as the types of transactions to be transacted with each member will be subject to change.

Paragraph 3 of this **Annex II** sets out the background to, and describes the nature of, the Interested Person Transactions with the CNAF Group and the BP Group respectively which are covered under the IPT Mandate.

### **3. CATEGORIES OF INTERESTED PERSON TRANSACTIONS**

#### **3.1 Interested Person Transactions with the CNAF Group**

Transactions between the CAO Group and the CNAF Group covered by the IPT Mandate include:

- (a) the sales and purchases of Petroleum Products to the CNAF Group, whether pursuant to the terms of the Supply Agreements or otherwise;
- (b) the provision and receipt of supply chain services including, but not limited to:
  - (i) the procurement of shipping and logistics services from CNAF Logistics for the transport of Petroleum Products by sea (including the chartering of ships, whether on a time charter or fixed voyage basis, and the rental of tankages); and
  - (ii) the provision of import agency services for Petroleum Products to LandOil and other members of the CNAF Group; and
- (c) the provision of Treasury Services by CNAF Finance to the CAO Group, and the provision of Treasury Services by the CAO Group to Investee Companies which are members of the CNAF Group.

Presently, the CAO Group does not intend to engage in the trading of Derivative Financial Instruments with the CNAF Group. As such, the IPT Mandate does not cover transactions involving the trading of Derivative Financial Instruments with the CNAF Group.

##### **3.1.1 Sales and Purchases of Petroleum Products**

###### *Supply Agreements*

On 3 January 2014, the Supply Agreement between the Company and CNAFCL dated 23 March 2010, which was previously renewed and extended to 6 August 2014, was further renewed and extended to 6 August 2016, on the same terms. On 14 February 2014, the Supply Agreement between the Company and Bluesky, which was previously renewed and extended to 1 April 2014, was also further renewed and extended to 1 April 2016, on the same terms. The Audit Committee reviewed the renewal and extension of the Supply Agreements and the terms thereof in accordance with the IPT Mandate which was then in force.

Under the respective Supply Agreements, the Company is to purchase aviation fuel on a proprietary basis (and not as agent of CNAFCL or Bluesky as the case may be), and then sell the aviation fuel to each of CNAFCL and/or Bluesky (or their respective designated import agents) on a proprietary basis.

The pricing at which the Company is to sell aviation fuel to CNAFCL or Bluesky under their respective Supply Agreements is either: (i) through a competitive tender exercise whereby the price charged to CNAFCL or Bluesky is the tender price, plus a fixed margin component, or (ii) at an agreed price based on a market pricing benchmark for the aviation fuel to be supplied, plus a pre-agreed fixed premium and a fixed margin component. In this context, the term “fixed margin” refers to an agreed fixed amount that the Company receives over and above its costs of procuring the aviation fuel; and the term “pre-agreed fixed premium” refers to the additional fixed amount pre-agreed between the Company on the one hand and each of CNAFCL and Bluesky respectively on the other, which is over and above the agreed price/market pricing benchmark (such as from Platts Singapore or any other global provider



of energy pricing information) of the aviation fuel to be supplied. In procuring aviation fuel from the suppliers, the Company also pays its suppliers a premium over and above the cost of the aviation fuel in line with prevailing market practice in the industry. The Company will not proceed with a sale under the method described in (ii) above (i.e., at an agreed price based on a market pricing benchmark for the aviation fuel to be supplied, plus a pre-agreed fixed premium and a fixed margin component), if the overall sale price chargeable to CNAFCL and Bluesky is less than the Company's breakeven price for the aviation fuel.

The Supply Agreements further set out other details regarding the procurement process, such as the periodic requirements for aviation fuel of CNAFCL and Bluesky, tender preparations by the Company, qualifications of suppliers, tender methods and notification of tender results.

**Bluesky is a subsidiary of CNAFCL. As CNAFCL is a subsidiary of CNAF, CNAFCL and Bluesky are therefore interested persons of the Company for the purposes of Chapter 9 of the Listing Manual.**

#### *Ad Hoc Supplies of Aviation Fuel*

In addition to the supply of aviation fuel to CNAFCL and Bluesky under the Supply Agreements, the CAO Group intends to undertake the supply of aviation fuel to, *inter alia*, members of the CNAF Group on an *ad hoc* basis. Where the CAO Group undertakes such supplies of aviation fuel to the CNAF Group, such supplies will be made on terms similar to the Supply Agreements, that is, the relevant products will be procured by the CAO Group on a proprietary basis and sold onward to the CNAF Group at the same premium plus the same fixed margin as referred to under the respective Supply Agreements.

#### *Physical Trading in Petroleum Products*

The CAO Group may engage in the physical trading of Petroleum Products with any member of the CNAF Group if that member meets the Company's eligibility requirements.

The bases for the pricing of Petroleum Products in physical trades to be sold or purchased by the CAO Group are in line with current market practices and involve two (2) pricing components namely, Mean of Platts Singapore ("**MOPS**") plus a fixed premium or less a fixed discount. MOPS refers to the mean of the high and low components of a Platts assessment for cargoes of oil products (including Petroleum Products) loading from Singapore. Platts is a leading global provider of energy and metals information. The amount of premium for a particular transaction is determined by negotiations between the trading parties which will *inter alia* depend on the quality of the Petroleum Products and other relevant market factors and conditions.

The Risk Management Committee holds the overall responsibility of ensuring that risk management controls and processes have been duly followed. This responsibility is delegated to the chief executive officer of the Company and subsequently to the head of risk management of the Company for daily operational activities.

### **3.1.2 Supply Chain Services**

#### *Background*

As part of the Company's continuing development of its capabilities, the Company is seeking to optimise its supply chain capabilities through enhancing its current business model. To this end, it seeks to be able to improve its supply chain optimisation capabilities beyond merely ensuring the quality and timely delivery of oil product shipments, to working

with traders to ensure the most cost-effective ways to ship oil products in light of the Company's supply and trading portfolio as a whole. For example, rather than chartering ships on individual voyage basis, the Company believes that it may be more efficient operationally and financially to enter into a time charter agreement in respect of a number of physical movements of oil products, or to enter into shipping arrangements with other suppliers on a collaborative basis.

#### *Purchase of Shipping and Logistics Services*

To this end, the Company works with several ship owners and logistics services providers. The key attributes by which these potential suppliers are selected include their competitiveness, their respective track records in handling the quality of oil products which the Company supplies, as well as their presence in the North Asian aviation fuel shipment market. In the course of sourcing for such suppliers, the Company anticipates that it may enter into shipping and logistics services arrangements, such as multiple voyages or time charter contracts, rental of tankages and other aviation fuel transportation arrangements with CNAF Logistics, if it is of the view that CNAF Logistics is able to offer competitive terms for their shipping and logistics services or if CNAF Logistics is the only shipping service provider which is able to meet the technical and delivery specifications stipulated by CAO's end customers. Further, the Company purchases Petroleum Products from various members of the BP Group and in turn sells the same to the receivers in PRC or other buyers. In the course of its supply to such buyers, the Company will in some cases need to purchase shipping and logistics services. As an example, CAO may buy Petroleum Products on FOB basis and sell the same on CFR basis, for which CAO will require freight services and it may engage CNAF Logistics to provide the freight services. In certain cases, CNAF Logistics may be the only shipping service provider which will be able to meet the technical and delivery specifications stipulated by CAO's end customers. If CAO buys on FOB basis and sells on FOB basis, CAO will not need freight services as CAO's buyer will be responsible for the freight arrangements. If CAO buys on CFR basis and sells on CFR basis, CAO will not need freight services.

For Petroleum Products which the CAO Group buys on FOB basis and sells to CNAFCL and Bluesky on CFR basis, the CAO Group will be required to obtain freight services from CNAF Logistics for the transportation of the said Petroleum Products to CNAFCL and Bluesky, as CNAF Logistics is the only shipping service provider which will be able to meet the technical and delivery specifications stipulated by CNAFCL and Bluesky. To this end, CAO and CNAF Logistics have entered into the Term Charter Party Agreement pursuant to which freight services will be provided to the CAO Group at certain pre-agreed rates for the transportation of Petroleum Products for the Term Charter Period. It is intended that the freight charges incurred by the CAO Group under this arrangement will be correspondingly reflected in the increased pricing at which the CAO Group is to sell the Petroleum Products to CNAFCL and Bluesky.

The Term Charter Party Agreement which shall take effect on 1 May 2014 will expire on 30 April 2015 unless extended or renewed in writing for a further period of one year or such other period as the parties may mutually agree. Under the Term Charter Party Agreement, the Company has agreed to charter ships operated by CNAF Logistics for the physical deliveries of the Petroleum Products to the following delivery routes: (1) Gaoqiao-Yangshan; (2) Jinling-Yangshan; (3) Dalian-Tianjin; (4) Yangshan-Puhang; (5) Maoming-Guangzhou; (6) Jinling-Chongqing; (7) Yangshan-Xiamen; (8) Dalian-Qinhuangdao; (9) Gaolan-Guangzhou; and (10) Jinshan-Yangshan.

**As CNAF Logistics is a subsidiary of CNAF, CNAF Logistics is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

*Supply of Import Agency Services*

As the Group builds up its supply chain optimisation capabilities, there may be other supply-chain and logistics-related services provided or to be provided by the Group to the CNAF Group, such as import agency arrangements that the Group intends to provide to LandOil. Under the import agency arrangements, the Company will be paid a fixed commission that is in line with the margins quoted in the markets for similar supply of import agency services and is determined by a bilateral negotiation between the Company and the relevant member of the CNAF Group (which in cases of import agency services, is LandOil).

**As LandOil is a subsidiary of CNAF, LandOil is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.1.3 Provision of Treasury Services by and to Member(s) of the CNAF Group**

*Treasury Services provided by CNAF Finance*

CNAF Finance has an arrangement with members of the CNAF Group pursuant to which such members may place their excess funds with CNAF Finance from time to time, in respect of which CNAF Finance will pay interest at rates which are agreed between parties. In turn, CNAF Finance, which holds primary accounts with banks (“**Deposit Banks**”) such as Agricultural Bank of China Co, Ltd and PingAn Bank Co., Ltd, will from time to time place such consolidated funds with the Deposit Banks. CNAF Finance is typically able to obtain relatively preferential terms from the Deposit Banks than what would have been generally available to the individual members, given the relatively larger size of the placements, which benefit CNAF Finance will be able to pass on to such members.

CNAF Finance has extended this arrangement to the CAO Group, and from time to time, the CAO Group may also place funds with CNAF Finance for which the CAO Group will receive interest from CNAF Finance on such amounts. The CAO Group may be able to obtain more competitive rates and quotes in an expeditious manner from CNAF Finance for such placement of funds, than what would have been generally available to the CAO Group in the market.

Additionally, the CAO Group may from time to time borrow funds from CNAF Finance. The CAO Group may be able to obtain more competitive rates and quotes for such borrowing of funds provided in an expeditious manner by CNAF Finance, than what would have been generally available to the CAO Group in the market.

All funds placed with CNAF Finance by the CAO Group will be guaranteed by a corporate guarantee provided by CNAF.

The CAO Group is required under PRC law to engage the services of a duly licensed financial institution in the PRC (referred to as “entrust loan arrangement services”) in order to provide loans to Investee Companies based in the PRC. CNAF Finance is duly licensed to provide such entrust loan arrangement services in the PRC. The CAO Group may engage CNAF Finance for the provision of such entrust loan arrangement services in connection with such loans if CNAF Finance’s charges are no higher than what the CAO Group would otherwise have been able to secure in the market.

### *Treasury Services provided by the CAO Group to Investee Companies*

The CAO Group may also from time to time provide loans to the Investee Companies and grant guarantees in favour of third parties for the purposes of the Investee Companies. Such Investee Companies may also be Interested Persons, such as CNAF HKR. From time to time, the CAO Group may be required to provide loans to CNAF HKR or grant guarantees in favour of third parties for the purposes of CNAF HKR, which may or may not be in proportion of the CAO Group's equity interest in CNAF HKR. The CAO Group will look to charge interest for the provision of such loans to Investee Companies, at rates which are higher than what is offered in the market, and will also charge fees as appropriate for the grant of such guarantees in favour of third parties for the purposes of the Investee Companies.

**As CNAF is a Controlling Shareholder, each member of the CNAF Group, including CNAF Finance and CNAF HKR, is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.2 Interested Person Transactions with the BP Group**

The CAO Group enters into transactions with the BP Group from time to time in the ordinary course of its business. Transactions with the BP Group that are covered by the IPT Mandate include purchases and/or sales of Petroleum Products and Derivative Financial Instruments to and/or from the BP Group such as:

- (a) sales of Petroleum Products to members of the BP Group;
- (b) purchases of Petroleum Products from members of the BP Group for onward sale to customers;
- (c) trading of Derivative Financial Instruments with members of the BP Group;
- (d) the procurement of supply chain services from members of the BP Group;
- (e) Profit-Sharing Arrangements; and
- (f) provision of Services by member(s) of the BP Group.

#### **3.2.1 Physical Trading of Petroleum Products**

Given the BP Group's significant presence in the Petroleum Products trading markets, the CAO Group's trading counterparties, amongst others, include members of the BP Group if each such member meets the CAO Group's trading counterparty eligibility requirements.

The PRC Term Contract, which is suspended for the One-Year Period, covers the procurement of aviation fuel by the CAO Group from the BP Group for the purposes of onward sale to the CAO Group's customers in the PRC. Upon the expiry of the One-Year Period, the PRC Term Contract will come back into force unless otherwise mutually agreed between the Company and BPS.

In addition to the supply and procurement of aviation fuel under the PRC Term Contract, the CAO Group also undertakes the following types of trading transactions with the BP Group (which fall outside the scope of the PRC Term Contract):

- (a) sales of Petroleum Products to members of the BP Group, predominantly on a proprietary basis;

- (b) purchases of aviation fuel from members of the BP Group for onward sale to customers outside of the PRC; and
- (c) purchases of Petroleum Products (other than aviation fuel) from the BP Group whether for onward sales to customers of the CAO Group in the PRC or elsewhere.

As disclosed in paragraph 3.1.1 of this **Annex II**, the bases for the pricing of Petroleum Products in physical trades to be sold or purchased by the CAO Group are in line with current market practices and involve two (2) pricing components namely, MOPS, which is information available to the market by Platts plus a fixed premium or less a fixed discount. The amount of premium for a particular transaction is determined by negotiations between the trading parties which will, *inter alia*, depend on the quality of the Petroleum Products and other relevant market factors and conditions.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.2.2 Trading of Derivative Financial Instruments**

A wide range of participants trade in the oil products derivatives markets, ranging from banks (such as Morgan Stanley and Goldman Sachs), oil majors (such as the BP Group, Royal Dutch Shell plc and Chevron Corporation), national oil companies (such as Petroliam Nasional Berhad (Petronas), PetroChina Company Limited and Singapore Petroleum Company Ltd) and trading houses (such as Vitol BV and Glencore International AG). Each market participant has different reasons for its involvement in derivatives trading, such as for hedging purposes or proprietary trading. As the BP Group is one of the major players in the market, members of the BP Group are the CAO Group's trading counterparties from time to time.

The Derivative Financial Instrument transactions that the CAO Group enters into, whether with the BP Group or any other counterparties, are conducted on a basis commonly used by the Derivative Financial Instruments markets for oil products around the world. Transactions range from those highly regulated by exchanges such as the New York Mercantile Exchange to over-the-counter ("**OTC**") contracts negotiated bilaterally between counterparties. Exchange traded contracts are highly standardised and transparent with commodities exchanges publishing daily volumes traded and closing prices. While OTC contracts are negotiated bilaterally, they are generally standardised in nature with slight variations in contractual terms as agreed between counterparties. The high degree of standardisation in OTC contracts enables such contracts to have increased transparency and hence, liquidity in the derivatives market. In the Singapore market, the most common oil Derivative Financial Instruments are swaps which are commonly traded on an OTC basis. Market participants could either trade directly with each other, or more commonly, through brokers. Depending on the nature of the commodity, there could be one or more brokers operating in the market. Brokers obtain their quotes independently of other market participants, and as such brokers' quotations are accepted by the Derivative Financial Instruments industry as indications of the market value of a Derivative Financial Instrument. As such, Platts (an independent source of oil prices) also uses brokers' quotations in their price considerations.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### 3.2.3 Procurement of Shipping and Logistics Services

In line with the Company's plans to optimise its supply chain capabilities and for so long as the BP Group is in the view of the Company able to provide shipping and logistics services on competitive terms, the CAO Group may from time to time procure such services from the BP Group. The services procured from the BP Group include the chartering of vessels from the BP Group on time charter agreement in respect of a number of physical movements of oil products, the rental of tankages from the BP Group, or the entry into of shipping arrangements together with the BP Group on a collaborative basis.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### 3.2.4 Profit-Sharing Arrangements

In line with the Company's intention to collaborate with the BP Group to achieve long-term strategic growth and development, the member(s) of the CAO Group and the member(s) of the BP Group may agree to pool together certain Petroleum Products for onward sale and to share the profits and/or losses generated from such Petroleum Products. Under such a Profit-Sharing Arrangement, the losses of the member(s) of the CAO Group may, where appropriate, be capped at an amount to be agreed among the relevant member(s) of the CAO Group and the relevant member(s) of the BP Group.

The 2011-2014 Collaboration Agreement comprises, *inter alia*, a Profit-Sharing Arrangement between the Company and BPS. Pursuant to the Third Supplemental Agreement, the Profit-Sharing Arrangement has been suspended for the One-Year Period.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### 3.2.5 Provision of Services by Member(s) of the BP Group

In line with the Company's continuing plans to build on and strengthen its position in the relevant markets, the CAO Group may from time to time opt to tap on the relevant expertise, industry know-how (such as information-sharing, marketing, training and risk management, secondment of staff and other related services) and business networks of member(s) of the BP Group by entering into agreements for the provision of Services with member(s) of the BP Group.

The 2011-2014 Collaboration Agreement provides, *inter alia*, for the provision of Services by BPS to the Company at no fee (save for Services relating to secondment of staff and training, which will be provided on terms to be agreed between BPS and the Company).

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**



## **4. BENEFITS OF THE INTERESTED PERSON TRANSACTIONS TO THE GROUP**

### **4.1 Benefits of Transacting with the CNAF Group**

The transactions with the CNAF Group contribute a substantial portion of the revenue of the Company, and in fact as at the Latest Practicable Date, the transactions under the Supply Agreements contribute significantly to the revenue of the Company. Under the Supply Agreements, the Company is assured of a fixed margin over its costs of supply of aviation fuel to the Interested Persons for its procurement services.

Through the Supply Agreements, the Company was appointed the exclusive supplier of all imported aviation fuel requirements of CNAFCL and Bluesky sourced from outside of the PRC (in respect of the airports in Beijing Capital International Airport and Guangzhou Baiyun International Airport respectively), on a proprietary basis. Since 6 August 2008, being the date the IPT Mandate was first adopted and approved, and to the extent that the relevant Interested Persons have requirements for imported aviation fuel during the term of the Supply Agreements, the Company will be their exclusive procurement supplier. Each of the Supply Agreements will be extended or renewed for a further term upon the mutual agreement of the parties.

A key benefit of obtaining a mandate for interested person transactions with the CNAF Group in relation to the trading of Petroleum Products is that it provides the CAO Group with an increased number of potential trading partners, thereby giving the CAO Group additional options and flexibility in managing its business and trading strategy in relation to the Petroleum Products.

In relation to the procurement of supply chain services from the CNAF Group, CNAF Logistics possesses logistics facilities for the transportation of aviation fuel, including tanker, jetty, pipeline and shipping facilities. Cooperation between the Company and CNAF Logistics will afford the Company an opportunity to extend its supply chain capabilities, for example, by being able to offer integrated supply chain services for petrochemical products and to arrange for international shipping to domestic transportation.

The provision of import agency services to members of the CNAF Group (including LandOil) will provide the CAO Group with an opportunity to develop its capabilities and expand the range of products offered to its customers.

### **4.2 Benefits of Transacting with the BP Group**

The Company continues to seek to increase the scope of its ordinary trading operations with suitable players in the market both in terms of increasing the variety of products it can trade in, as well as enlarging its customer base to reach markets beyond the PRC, in order to increase the sources of income for the Company. As the BP Group is one of the major players in the oil products derivatives markets, one of the key benefits of obtaining the IPT Mandate is that it provides the CAO Group with an increased number of potential trading partners, thereby giving the CAO Group additional options and flexibility in managing its business and trading strategy in relation to Petroleum Products and Derivative Financial Instruments. Also, this is in line with CAO's aim to trade with all the major players in the oil products derivatives markets such that the Company can obtain the most competitive prices for its transactions. Further, the CAO Group expects to benefit from the synergies arising from the collaboration with the BP Group on supply chain services.

While the CAO Group is a key supplier of imported aviation fuel in the PRC market, it has a minor presence in other markets and has found it difficult to penetrate into them on its own in order to grow geographically. Obtaining competitive pricing for a small player in these



markets is often difficult. The BP Group, on the other hand, is one of the dominant players in the Australian, Middle Eastern, Singaporean and European markets. Entering into Profit-Sharing Arrangements with member(s) of the BP Group will enable the CAO Group to leverage on the BP Group's network to grow competitively in these new markets, and provide the CAO Group with an opportunity to increase its recurrent income through an additional source while minimising its risk exposure as well as a potential avenue for the CAO Group to explore various opportunities for long-term strategic business growth and development with members of the BP Group. This is in line with the Company's long-term goal of cooperating on a long-term basis with the BP Group to strengthen the Company's capability in the international procurement of Petroleum Products and to ensure the secure supply of such Petroleum Products to the Company on competitive terms for its onward sale and supply to buyers in the PRC. For example, the Profit-Sharing Arrangement under the 2011-2014 Collaboration Agreement would (a) enable the Company to extend its oil trading business, (b) provide a platform for both the Company and BPS to build on their respective strengths to grow the base business of the Shared Pool under the 2011-2014 Collaboration Agreement and (c) provide the Company with access to global markets. Accepting Services from the member(s) of the BP Group will also provide the CAO Group with an invaluable resource as the CAO Group will be able to tap on the relevant expertise, industry know-how (such as information-sharing, marketing, training, risk management, secondment of staff and other related services) and business networks of such member(s) of the BP Group or to reap the benefits of efficiencies and economies of scale through the provision of Services by the member(s) of the BP Group for the CAO Group's and the BP Group's mutual benefits. In this way, the Company can continue to build on and strengthen its position in the relevant markets. Pursuant to the Third Supplemental Agreement, the 2011-2014 Collaboration Agreement (save for the Services) has been suspended for the One-Year Period.

## **5. TRANSACTIONS NOT COVERED BY IPT MANDATE**

### **5.1 Transactions under the Pipeline Services Contract**

As prior Shareholders' approval has been obtained for the provision of pipeline transportation services by TSN-PEKCL to CNAFCL under the Pipeline Services Contract, the IPT Mandate does not cover such transactions pursuant to the Pipeline Services Contract. However, any variation of the terms of the Pipeline Services Contract which have been outlined in the Company's circular to Shareholders dated 15 December 2008 and any variations in the prices charged for pipeline transportation services, will be subject to Chapter 9 of the Listing Manual.

### **5.2 Transactions outside the Scope of the IPT Mandate**

Transactions with the Interested Persons which do not fall within the ambit of the IPT Mandate shall be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual. Shareholders are also to note that the IPT Mandate does not extend to include the trading of Derivative Financial Instruments between the CAO Group and the CNAF Group.

The IPT Mandate does not cover any transaction by a company in the Group with Interested Persons that is below S\$100,000 in value as the threshold and aggregation requirements of Chapter 9 of the Listing Manual would not apply to such transactions. In addition, the IPT Mandate does not include transactions for the purchase or sale of assets, undertakings or businesses with the Interested Persons.

## **6. REVIEW PROCEDURES FOR INTERESTED PERSON TRANSACTIONS**

To ensure that the Interested Person Transactions 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, as a general rule the CAO Group will only enter into transactions with the Interested Persons if the terms offered by or extended to the Interested Persons are respectively no less favourable or more favourable than the terms that may be obtainable from or extended to unrelated third parties.

### **6.1 Review procedures for determination of premium or amendment of premium or margin under the Supply Agreements and the PRC Term Contract, and for extension or renewal of the Supply Agreements and the PRC Term Contract**

To ensure that any determination of the premium payable under the Supply Agreements or the PRC Term Contract, any amendment of the premium or margin under the Supply Agreements or the PRC Term Contract, and any future extension or renewal of the Supply Agreements or the PRC Term Contract, will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders, the Audit Committee has adopted the following review procedures:

- (a) If, as of the date on which the CAO Group proposes to determine the premium payable under the Supply Agreements or the PRC Term Contract, or amend the premium or margin under the Supply Agreements or the PRC Term Contract, or extend or renew any Supply Agreement or the PRC Term Contract (as the case may be), the CAO Group does not supply or purchase aviation fuel, the product being supplied under the relevant contract, of the same or similar specifications as specified under the relevant contract, in any significant amount to or from other unrelated third parties (as the case may be), so that it is not possible to compare the proposed premium or margin or proposed terms of the extended or renewed Supply Agreement or PRC Term Contract (as the case may be) against the premium, margin and/or terms of other transactions with unrelated third parties, the premium or margin or the CAO Group's pricing for its supply or purchase of aviation fuel of the relevant specifications to or from Interested Persons (as the case may be) as set out in the extended or renewed Supply Agreement or PRC Term Contract (as the case may be) will be verified by any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transactions concerned and shall not be involved in the negotiations of the premium or margin or the negotiations of the extension or renewal of the relevant Supply Agreement or the PRC Term Contract (as the case may be).

In undertaking such verification, the two (2) Senior Executives or other appointed persons will, on a best efforts basis, obtain reference prices and/or quotations from the external markets via the CAO Group's existing aviation fuel suppliers (for example, by obtaining from such suppliers indicative margins and premiums that they are charging for their sales and estimates of freight charges for delivering the aviation fuel of the relevant specifications to the relevant destination). They will then verify that the proposed margin and/or premium is/are consistent with or better than such indicative market rates as a rough benchmark or gauge of the then applicable pricing of aviation fuel.

It is to be noted that there are limitations on making meaningful and fair comparisons of reference prices and quotations for aviation fuel imports into the PRC, as CAO currently only supplies aviation fuel (sourced from outside the PRC) in substantial amounts to CNAFCL and Bluesky for imports into the PRC and does not supply

aviation fuel in any significant amount to other unrelated third parties, and it is difficult to obtain comparable reference prices and quotations on a like-for-like basis due to differences in sizes, delivery dates, quantity loads and locations of cargoes.

- (b) If, as of the date on which the CAO Group proposes to determine the premium payable under the Supply Agreements or the PRC Term Contract, or amend the premium or margin under the Supply Agreements or the PRC Term Contract, or extend or renew any Supply Agreement or the PRC Term Contract (as the case may be), the CAO Group does supply or purchase aviation fuel, the product being supplied or purchased under the relevant contract, of the same or similar specifications as specified under the relevant contract, in a significant amount to or from other unrelated third parties (as the case may be), the price and terms of at least two (2) other successful sales or purchases of aviation fuel of the relevant specifications to or from unrelated third parties (as the case may be) will be used as a basis for comparison, whenever possible, to determine whether the premium or margin or the prices and terms proposed to be included in the extended or renewed Supply Agreement or PRC Term Contract (as the case may be) are comparable to those offered by unrelated third parties for such successful sales or purchases (as the case may be) of aviation fuel of the relevant specifications, taking into account all pertinent factors including, but not limited to, price, quality, delivery time and track record, to ensure that the interests of its minority Shareholders are not disadvantaged.

The Company confirmed that the agreed premium applicable for the period under the PRC Term Contract was reviewed in accordance with this paragraph 6.1 of this **Annex II**.

## **6.2 Review procedures for transactions with the Interested Persons involving purchases and/or sales of Petroleum Products (other than under the Supply Agreements and the PRC Term Contract)**

In respect of transactions comprising purchases and/or sales of Petroleum Products by the CAO Group from or to any Interested Person, in addition to the credit assessment process undertaken by the CAO Group on all potential parties for Petroleum Products before accepting that Interested Person as a counterparty:

- (a) When selling and purchasing Petroleum Products to and from an Interested Person, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract shall, where practicable or possible, compare the terms offered by or to the Interested Person against the terms of at least one (1) other quotation obtained from unrelated third parties of similar quantities and/or quality of the relevant Petroleum Products, prior to the entering into of the contract or transaction with the Interested Person, as a basis for comparison, and such comparisons, if any, are to be documented. In determining the competitiveness of the quotations (including those by and to the Interested Person), all pertinent factors, including but not limited to pricing, quality, delivery time and track record, and where applicable, preferential rates, rebates or discounts accorded for bulk purchases and the terms of any Profit-Sharing Arrangement that may be applicable in respect of the sale or purchase, will be taken into consideration. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.

For the purposes of this review procedure in determining whether it is practicable or possible to compare the terms offered by or to the Interested Person against the terms of at least one (1) other quotation obtained from unrelated third parties, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract, shall follow the existing control guidelines approved by the Audit Committee. Amendments to the control guidelines shall be made in accordance with any subsequent changes to the IPT Mandate, and will be subject to review by the internal auditors from time to time.

- (b) Where such quotations are not obtainable, the transactions with the Interested Person will be reviewed against recent actual transactions of similar nature published in recognised industry publications or as published on a recognised commodities exchange. In determining the competitiveness of these published terms, the two (2) Senior Executives involved in the review will have to take into consideration the same pertinent factors as mentioned above.
- (c) Due to the nature of the markets in which the CAO Group operates, involving purchases and/or sales of Petroleum Products, situations will commonly occur wherein there are no available quotations from unrelated third party suppliers or purchasers, and published rates of recent actual transactions of similar nature published in recognised industry publications or as on recognised commodities exchanges are not available, applicable or comparable. For all such situations the transaction will be reviewed and approved by any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract, after taking into consideration factors such as, but not limited to, delivery schedules, market pricing, quantity, credit terms, the margin that CAO Group will receive if CAO is acting as reseller of the Petroleum Products that are purchased, the restrictive business or regulatory environment in which the CAO Group operates and the transaction is undertaken, and where applicable, the terms of any Profit-Sharing Arrangement that may be applicable in respect of the sale or purchase. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.
- (d) Due to the nature of the markets in which the CAO Group operates, involving purchases and sales of Petroleum Products, situations will also commonly occur where a trader acting for the CAO Group may conduct purchases and/or sales of Petroleum Products via a voice-based, online or electronic telecommunication-based trading platform where transactions are fast-paced and undertaken in a series of buy or sell prices offered by traders or brokers which are accepted by other traders or brokers participating in the trading platform. In the case of the voice-based trading platform, the CAO Group appoints broker(s) to source for quotes from the market which are then provided to the CAO Group's traders for confirmation. In all these cases, the CAO Group's trader in practice may be required to enter into an almost instantaneous transaction based on his assessment of the best available price then quoted on the trading platform. The counterparty may or may not be identified at the time of commitment to the transaction, and accordingly, it may not be possible for the CAO Group to determine whether the counterparty is or is not an Interested Person until the transaction is completed. In the cases where broker(s) are appointed by the CAO Group to source for quotes, the broker will be an independent party with no interest (whether direct or indirect) in the transaction save for the receipt of

commission. At the time of commitment to the transaction, the transaction shall only be entered into: (i) in the case of a purchase of Petroleum Products by the CAO Group, at the trader's assessment of the lowest available price quoted on the trading platform for the CAO Group's order at the material time, and (ii) in the case of a sale of Petroleum Products by the CAO Group, at the trader's assessment of the highest available price quoted on the trading platform for volume of Petroleum Products intended to be sold by the CAO Group at the material time. Each trade confirmation will be forwarded to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the procedures set out in this paragraph 6.2(d) have been complied with.

In respect of any term contract entered into between the Company and BPS which provides for trading collaboration arrangements in respect of the supply of aviation fuel, which has been reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with paragraph 6.2(a) above prior to entry, and for which the agreed premiums applicable thereunder were also reviewed by the Audit Committee, the review procedures under this paragraph 6.2 shall not separately apply in respect of any individual transactions conducted subject to and in accordance with the agreed premiums/pricing formulae and other terms under such term contract; and the review procedures under paragraph 6.1 above shall apply in respect of any determination of the premium payable under such term contract, any amendment of the premium or margin under such term contract, and any future extension or renewal of the such term contract, to ensure that the same will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

*Ad hoc* supplies of Petroleum Products (other than supply of aviation fuel to the CNAF Group which is covered under paragraph 6.8 of this **Annex II**) will be reviewed in accordance with this paragraph 6.2 of this **Annex II**.

### **6.3 Review procedures for transactions with the Interested Persons involving the trading of Derivative Financial Instruments**

In addition to the credit assessment process undertaken by the CAO Group on all potential parties in relation to Derivative Financial Instruments before accepting that Interested Person as a counterparty, the following review procedure will be applied in respect of the trading of Derivative Financial Instruments between the CAO Group and an Interested Person:

- (a) Prior to entering into any contract or transaction in connection to the trades of Derivative Financial Instruments with any Interested Person, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the price and other associated costs (such as brokerage fees, foreign currency and bank commissions) offered by the Interested Persons against the price and associated costs (such as brokerage fees, foreign currency and bank commissions) of at least one (1) other quotation obtained from unrelated third parties for a Derivative Financial Instrument with similar terms. The CAO Group shall use such comparison as a basis when entering into the contract or transaction with the Interested Person, and such comparisons are to be documented. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and



aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.

- (b) Due to the nature of the markets in which the CAO Group operates, involving trading of Derivative Financial Instruments, situations will also commonly occur where a trader acting for the CAO Group may conduct such trades via a voice-based, online or electronic telecommunication-based trading platform where transactions are fast-paced and undertaken in a series of buy or sell prices offered by traders or brokers which are accepted by other traders or brokers participating in the trading platform. In the case of the voice-based trading platform, the CAO Group appoints broker(s) to source for quotes from the market which are then provided to the CAO Group's traders for confirmation. In all these cases, the CAO Group's trader in practice may be required to enter into an almost instantaneous transaction based on his assessment of the best available price then quoted on the trading platform. The counterparty may or may not be identified at the time of commitment to the transaction, and accordingly, it may not be possible for the CAO Group to determine whether the counterparty is or is not an Interested Person until the transaction is completed. In the cases where broker(s) are appointed by the CAO Group to source for quotes, the broker will be an independent party with no interest (whether direct or indirect) in the transaction save for the receipt of commission. At the time of commitment to the transaction, the transaction shall only be entered into at the trader's assessment of the price quoted on the trading platform for the CAO Group's order which is the most favourable available price to the CAO Group at the material time. Each trade confirmation will be forwarded to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the procedures set out in this paragraph 6.3(b) have been complied with.

#### **6.4 Review procedures for the Profit-Sharing Arrangements**

To ensure that the determination or amendment of the profit-sharing ratio or other terms (such as, where applicable, any cap on the losses of member(s) of the CAO Group) under the Profit-Sharing Arrangements will not be prejudicial to the interests of the Company and its minority Shareholders, and given that it is expected that most Profit-Sharing Arrangements will be one-off and unique to the BP Group in the light of its relationship with the CAO Group, the Audit Committee will review all Profit-Sharing Arrangements with the aim of ensuring that they are on normal commercial terms and not prejudicial to the Company or its minority Shareholders.

In its review, the Audit Committee will examine, *inter alia*, the historical aggregate net contribution to profits of each of the BP Group and the CAO Group respectively under the relevant Profit-Sharing Arrangement during the relevant period and compare them against each other, and make appropriate and reasonable adjustment(s) where feasible to the profit-sharing ratio and/or the terms of the Profit-Sharing Arrangement if and when it is determined that either the BP Group or the CAO Group is/are consistently under-contributing as compared to the other under the Profit-Sharing Arrangement.

The entry into any agreement by the Company and/or by any other member(s) of the CAO Group to provide for a Profit-Sharing Arrangement with member(s) of the BP Group, and any review or amendment of the terms of the Profit-Sharing Arrangement, will be approved by the Board. As required under Article 102 of the Articles of Association of the Company, Directors with a direct or indirect personal material interest in the agreement will abstain from voting on the resolution.

## **6.5 Review procedures for the provision of Services by the BP Group**

When procuring Services to be provided by member(s) of the BP Group, two (2) other quotations from unrelated third party providers of similar services will be obtained for comparison to ensure that such Interested Person Transactions are conducted on normal commercial terms and which are not prejudicial to the interests of the Company and its minority Shareholders. Any fee to be paid by member(s) of the CAO Group for the Services shall not be higher than the most competitive fee of the two (2) other quotations from unrelated third parties. In determining the most competitive fee, all pertinent factors, including but not limited to quality, reliability in delivery and track record will be taken into consideration. In addition, the credit terms obtained from the member(s) of the BP Group shall not be less favourable than those obtained from unrelated third parties.

Where such quotations are not obtainable (for instance, if there are no unrelated third party providers of such similar services), any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the contract or transaction for the provision of Services with member(s) of the BP Group and shall not be involved in the negotiations of the relevant contract or transaction, will determine whether the fee and terms offered by the member(s) of the BP Group are fair and reasonable. In determining whether the fees and terms offered by the member(s) of the BP Group are fair and reasonable, the two (2) Senior Executives involved in the review will have to take into consideration the same pertinent factors as mentioned above.

The entry into any agreement by the Company and/or by any other member(s) of the CAO Group for the provision of Services by member(s) of the BP Group, and any review or amendment of the terms of the provision of Services, will be approved by the Board. As required under Article 102 of the Articles of Association of the Company, Directors with a direct or indirect personal material interest in the agreement will abstain from voting on the resolution.

## **6.6 Review procedures for Treasury Services**

The following review procedures will be applied in respect of the receipt and provision of Treasury Services between the CAO Group and an Interested Person:

- (a) Prior to entering into any contract or transaction with CNAF Finance in respect of any placement of funds by the CAO Group with CNAF Finance, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee, who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction, shall compare the interest rates for such placements offered by CNAF Finance with the interest rates quoted by at least two (2) other principal bankers of the Company for deposits of an equivalent amount and for an equivalent period. The request made to the principal bankers of the Company shall also be made by a person who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction. The CAO Group will only place funds with CNAF Finance, if the interest rate quoted by CNAF Finance is higher than the highest of the interest rates quoted by such principal bankers.
- (b) Prior to entering into any contract or transaction with CNAF Finance in respect of any borrowing of funds by the CAO Group from CNAF Finance, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee, who shall have no interest (whether direct or indirect) in the Interested Person Transaction



concerned and shall not be involved in the negotiations of the relevant contract or transaction, shall compare the interest rates for such borrowings offered by CNAF Finance with the interest rates quoted by at least two (2) other principal bankers of the Company for borrowings of an equivalent amount and for an equivalent period. The request made to the principal bankers of the Company for the quote shall also be made by a person who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction. The CAO Group will only borrow funds from CNAF Finance if the interest rate quoted by CNAF Finance is lower than the lowest of the interest rates quoted by such principal bankers.

- (c) Prior to entering into any contract or transaction with any Investee Company in respect of any provision of loans to Investee Companies, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the interest rates for such loans charged by the CAO Group with the equivalent lending interest rates quoted by at least two (2) other principal bankers of the Company. The CAO Group will only provide loans in favour of Investee Companies if the interest rate charged by the CAO Group is higher than the highest rate quoted by such principal bankers.
- (d) Prior to entering into any contract or transaction with any Investee Company in respect of any grant of guarantees in favour of third parties for the purposes of the Investee Companies, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the fees for the grant of such guarantees charged by the CAO Group with the equivalent fees quoted by at least two (2) other principal bankers of the Company. The CAO Group will only provide guarantees in favour of third parties for the purposes of the Investee Companies if the fees charged by the CAO Group are higher than the highest rate quoted by such principal bankers.
- (e) Prior to entering into any contract or transaction with CNAF Finance in respect of any provision of entrust loan arrangement services for the purpose of the provision of loans by the CAO Group to Investee Companies based in the PRC, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the charges for such entrust loan arrangement services with the equivalent charges quoted by at least two (2) other principal bankers of the Company. The CAO Group will only engage CNAF Finance for such entrust loan arrangement services if CNAF Finance's charges are no higher than the lowest rate quoted by such principal bankers.

In each case above, each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.

## 6.7 Review procedures for other categories of transactions with Interested Persons

In respect of any goods and/or services obtained from or provided to any Interested Person (other than the sale of aviation fuel pursuant to the Supply Agreements, any extension or renewal of the Supply Agreements or the PRC Term Contract, the Profit-Sharing Arrangements and provision of Services by BPS under the 2011-2014 Collaboration Agreement, transactions under the PRC Term Contract, the provisions of Services by the BP Group, the purchase and sale of Petroleum Products and Derivative Financial Instruments, the Treasury Services and the provision of Supply Chain Services pursuant to the Term Charter Party Agreement):

- (a) All contracts entered into or transactions with an Interested Person are to be carried out by obtaining quotations (wherever possible or available) from at least two (2) other unrelated third party suppliers for similar quality services, prior to entry into the transaction with the Interested Person, as a basis for comparison to determine whether the price and terms offered by or to the Interested Person is comparable to those offered by unrelated third parties for the same or substantially similar type of services.
- (b) Where such quotations are not possible, available or commercially feasible to obtain given that there are no unrelated third party suppliers of similar services (for instance, where there is no unrelated third party service provider which will be able to meet the technical and delivery specifications stipulated by CAO's customers) or the commercial sensitivity of the subject matter, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction, will determine whether the price and terms offered by or to the Interested Person are fair and reasonable. In determining whether the price and terms offered by or to the Interested Person are fair and reasonable, factors such as, but not limited to, delivery schedules, quality of advice or training and track record will be taken into account.

As the Term Charter Party Agreement was reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with paragraph 6.6(b) of the IPT Mandate which was renewed at the extraordinary general meeting of the Company held on 25 April 2013, the review procedures under this paragraph 6.7 shall not separately apply in respect of any individual transactions conducted subject to and in accordance with the terms of the Term Charter Party Agreement.

- 6.8 For the avoidance of doubt, as supply of aviation fuel under the Supply Agreements and *ad hoc* supplies of aviation fuel to the CNAF Group are conducted at the predetermined terms and pricing set out in the Supply Agreements and the premium and margin as determined in accordance with paragraph 6.1 of this **Annex II**, purchase of aviation fuel under the PRC Term Contract are conducted at the predetermined terms and pricing set out in the PRC Term Contract and the premium and margin as determined in accordance with paragraph 6.1 of this **Annex II**, and purchase and supply of aviation fuel under any term contract which is conducted at such predetermined terms and pricing and in line with the terms of the said term contract which has been reviewed by the Audit Committee in accordance with paragraph 6.2 of this **Annex II**, such individual supply and purchase transactions are not separately subject to transactional review procedures nor are they taken into account and aggregated together with prior Interested Person Transactions entered into with members of the CNAF Group or the BP Group for a given month for the purposes of determining if the relevant thresholds as set out in the table in paragraph 7 of this **Annex II** have been crossed (and hence not be subject to further review and approval by the Audit Committee prior to the entry into such transactions).

## 7. THRESHOLD LIMITS

- 7.1 The Audit Committee will review all of the CAO Group's Interested Person Transactions, including transactions covered under the IPT Mandate, on a quarterly basis. Where the value of an Interested Person Transaction with the same group of Interested Persons, namely, BP Group or CNAF Group (when aggregated together with prior Interested Person Transactions entered into for a given month) exceeds the relevant threshold as set out in the table below, the Interested Person Transaction will be reviewed and approved by the Audit Committee prior to the entry into such transaction.

<b>Transaction Type</b>	<b>Applicable Threshold*</b>
Purchase and Sale of Petroleum Products	US\$576 million if the Average Barrel Price for the immediately preceding month is US\$120 or less
Purchase and Sale of Petroleum Products	US\$691 million if the Average Barrel Price for the immediately preceding month exceeds US\$120
Trading of Derivative Financial Instruments	US\$30 million
Supply Chain Services	US\$7 million for all Supply Chain Services provided other than pursuant to the Term Charter Party Agreement
Supply Chain Services	US\$48 million for all Supply Chain Services provided pursuant to the Term Charter Party Agreement
Services provided by members of the BP Group	US\$1 million
Treasury Services	US\$500 million

\* Threshold based on aggregate value of the relevant type of transactions, calculated over a given month.

- 7.2 For the purpose of determining whether the above thresholds have been exceeded, the value of a transaction relating to:
- a purchase or sale of Petroleum Products, shall be the aggregate value of the Petroleum Products payable or receivable from the Interested Person, determined as set out in paragraph 7.3 of this **Annex II**;
  - a trade in Derivative Financial Instruments, shall be the mark-to-market value of the Derivative Financial Instruments calculated by using the market quoted forward curves published daily by Platts, and/or independent brokers' quotations; and
  - Treasury Services, shall be the gross aggregate value of the Treasury Services received or provided by the CAO Group for each month of the Company's financial year. In line with Rule 909 of the Listing Manual, the value of Treasury Services involving (i) the borrowing of funds from an Interested Person is the interest payable on the borrowing; (ii) the lending of funds to or placing of funds with an Interested Person is the aggregate of the interest payable and the value of the funds lent or placed; and (iii) the provision of guarantees is the aggregate of the value of the obligations guaranteed and the fees payable for such guarantees.

**7.3** For the purposes of paragraph 7.2(a) of this **Annex II**, the aggregate value of the Petroleum Products payable or receivable from the Interested Persons under a transaction is determined by taking the aggregate estimated total price payable under the transaction, based on the volume to be delivered as estimated at the time of entry into the transaction and set out in the contract. The price in turn may be pegged to (a) the forward price quotations obtained from two or more brokers or dealers for the relevant Petroleum Product traded on an OTC basis, (b) the forward price quotation for the relevant Petroleum Product obtained from Platts, or (c) the forward price quotation for the relevant Petroleum Product as published by relevant commodities exchange(s) such as the New York Mercantile Exchange, as at the time of entry into the contract, for delivery in the month of the contracted delivery date or in the preceding month or specified number of months prior to the contracted delivery date, as agreed in the contract, and incorporating any agreed premium or margin as set out in the contract.

## **8. GENERAL REVIEW PROCEDURES**

Apart from the review procedures specific to the relevant transactions above, the following general review procedures will apply to all Interested Person Transactions under the IPT Mandate:

- (a) The finance department of the Company will maintain a register of transactions carried out with the Interested Persons pursuant to the IPT Mandate and the Company's internal audit plan will incorporate a review of all Interested Person Transactions transacted in the relevant FY pursuant to the IPT Mandate. Further, to ensure that all Interested Persons Transactions are duly recorded, the finance department shall maintain another list of all Interested Persons to enable it to check the Interested Person Transactions concluded against this list of Interested Persons.
- (b) The Audit Committee shall have overall responsibility for monitoring and approving the Interested Person Transactions and for determining the review procedures, with the authority to delegate such responsibility to individuals within the Company as it deems appropriate.
- (c) If any member of the Audit Committee has an interest in any of the Interested Person Transactions to be reviewed, such member shall abstain from any decision-making in respect of those transactions. The review and approval of those transactions will be undertaken by the remaining members of the Audit Committee.

If, during any reviews by the Audit Committee, it is of the view that the established review procedures are no longer appropriate or inadequate to ensure that the Interested Person Transactions will not be prejudicial to the interests of the Company and its minority Shareholders or any change of circumstances results in the assumptions underlying its opinion being no longer true, the Company will seek a fresh mandate from Shareholders based on new review procedures. All Interested Person Transactions shall be reviewed and approved by at least one (1) member of the Audit Committee prior to entry pending a fresh mandate to be sought from Shareholders. In the event that a member of the Audit Committee is interested in any such Interested Person Transaction, that member will abstain from reviewing that particular transaction.

## ANNEX III

### LIST OF INTERESTED PERSONS

The list of Interested Persons, with which the CAO Group intends to undertake transactions with, as well as the type of transactions to be undertaken pursuant to the IPT Mandate, are as follows:

#### A. BP Group Members

<b>Entity Name</b>	<b>Nature of Transactions</b>
1. BP Singapore Pte. Limited	<ul style="list-style-type: none"><li>– Trading of Petroleum Products and Derivative Financial Instruments</li><li>– Procurement of Shipping and Logistics Services</li><li>– Profit-Sharing Arrangements</li><li>– Provision of Services</li></ul>
2. BP Oil International Limited	<ul style="list-style-type: none"><li>– Trading of Petroleum Products and Derivative Financial Instruments</li><li>– Profit-Sharing Arrangements</li></ul>
3. BP Products North America Inc.	<ul style="list-style-type: none"><li>– Trading of Petroleum Products and Derivative Financial Instruments</li></ul>
4. BP West Coast Products Inc.	<ul style="list-style-type: none"><li>– Trading of Petroleum Products and Derivative Financial Instruments</li></ul>
5. Britannic Energy Trading Limited	<ul style="list-style-type: none"><li>– Trading of Petroleum Products and Derivative Financial Instruments</li></ul>
6. BP Shipping Limited	<ul style="list-style-type: none"><li>– Procurement of Shipping and Logistics Services</li></ul>
7. BP Asia Ltd	<ul style="list-style-type: none"><li>– Trading of Petroleum Products</li></ul>
8. BP France SA – Dubai branch	<ul style="list-style-type: none"><li>– Trading of Petroleum Products</li></ul>
9. Air BP Limited	<ul style="list-style-type: none"><li>– Trading of Petroleum Products</li></ul>
10. Shanghai SECCO Petrochemical Company Limited	<ul style="list-style-type: none"><li>– Trading of Petroleum Products</li></ul>

## B. CNAF Group Members

	<b>Entity Name</b>	<b>Nature of Transactions</b>
1.	China National Aviation Fuel Group Corporation (中国航空油料集团公司)	– Trading of Petroleum Products
2.	China National Aviation Fuel Corporation Ltd (中国航空油料有限责任公司)	– Trading of Petroleum Products
3.	China National Aviation Fuel South China Bluesky Corporation (华南蓝天航空油料有限公司)	– Trading of Petroleum Products
4.	China National Aviation Fuel Yantai Corporation (中国航油烟台有限公司)	– Trading of Petroleum Products
5.	China National Aviation Fuel Nanjing Corporation (南京空港油料有限公司)	– Trading of Petroleum Products
6.	China National Aviation Fuel Petroleum Co., Ltd (中国航油集团石油有限公司)	– Trading of Petroleum Products – Provision of Logistics Services
7.	China National Aviation Fuel Logistics Co., Ltd (中国航油集团物流有限公司)	– Procurement of Shipping and Logistics Services – Receipt of Treasury Services
8.	China National Aviation Fuel Haixin Shipping Corporation (中国航油集团海鑫航运有限公司)	– Procurement of Shipping Services
9.	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)	– Procurement of Logistics Services – Provision and receipt of Treasury Services
10.	China Aviation Oil Import & Export Company Limited (中航油进出口有限公司)	– Trading of Petroleum Products
11.	Shenzhen Cheng Yuan Aviation Oil Company Limited (深圳承远航空油料有限公司)	– Trading of Petroleum Products
12.	Shanghai Puhang Oil Co.,Ltd. (上海浦航石油有限公司)	– Procurement of Logistics Services
13.	Tianjin International Petroleum Storage & Transportation Co., Ltd. (天津国际石油储运有限公司)	– Procurement of Logistics Services
14.	CNAF Hong Kong Refuelling Limited (中国航油香港供油有限公司)	– Receipt of Treasury Services
15.	China National Aviation Fuel Finance Co.; Ltd (中国航油集团财务有限公司)	– Provision of Treasury Services

In addition to the Interested Persons listed above, members of the BP Group and the CNAF Group which are nominated by the Interested Persons named above to enter into transactions with the CAO Group, are also deemed to be Interested Persons listed in this **Annex III** with which the CAO Group may transact under the IPT Mandate. Shareholders are also to note that the list of Interested Persons, as well as the type of transactions to be undertaken, may change from time to time as a result of any internal restructurings that the CNAF Group or the BP Group may undertake.

For avoidance of doubt, Shareholders should note that the Company will not seek any separate approval from Shareholders in relation to any such nominated entities or any such addition of new entities to the list of Interested Persons set out in this **Annex III**.



ANNEX IV

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER TO  
THE INDEPENDENT DIRECTORS

**CIMB BANK BERHAD (13491-P)**  
**Singapore Branch**  
(Incorporated in Malaysia)

50 Raffles Place #09-01  
Singapore Land Tower  
Singapore 048623

28 March 2014

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 PROPOSED  
AMENDMENTS TO AND RENEWAL OF THE EXISTING MANDATE FOR INTERESTED  
PERSON TRANSACTIONS**

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*For the purpose of this letter, terms not otherwise defined herein shall have the same meaning given in the letter dated 28 March 2014 to the Shareholders of China Aviation Oil (Singapore) Corporation Ltd (the “**Letter**”).*

**1. INTRODUCTION**

This letter has been prepared for the use by the Independent Directors of China Aviation Oil (Singapore) Corporation Ltd (the “**Company**”) to be incorporated into the Letter in connection with the proposed amendments to and renewal of the existing mandate for Interested Person Transactions (“**IPT Mandate**”).

**2. TERMS OF REFERENCE**

CIMB Bank Berhad, Singapore Branch (“**CIMB Bank**”) has been appointed as the independent financial adviser to provide an opinion on whether the methods and procedures for the Interested Person Transactions, if adhered to, are sufficient to ensure that the Interested Person 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.

For the purpose of arriving at our opinion, we have confined our evaluation to the bases set out herein. Our terms of engagement do not require us to conduct, and we have not conducted, any review of the business plan, operations, financial performance and/or financial condition of the Company and its subsidiaries (the “**Group**”). We are not required to and have not obtained any quotations or transaction prices from any third parties in respect of the products and/or services relating to the Interested Person Transactions under

the IPT Mandate. We have not conducted any review or audit of any of the Interested Person Transactions and we do not warrant or make any representation as to the actual implementation of the methods and procedures under the IPT Mandate by the Group.

We do not express any opinion on the commercial risks or merits of the Interested Person Transactions or on the future prospects of the Group. 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 for the Interested Person Transactions or its deliberations leading up to the decision by the Company to adopt the IPT Mandate. We do not express any opinion on the merits of the Interested Person Transactions relative to any alternative transaction.

We have held discussions with the management of the Company and have examined information, both written and verbal, provided to us by the management of the Company. We have not independently verified such information, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of, such information. However, we have made such reasonable enquiries and exercised our judgment as we deemed necessary and have found no reason to doubt the accuracy or reliability of such information.

We have relied upon the assurances of the Directors (including those who may have delegated supervision of the Letter) that they have taken all reasonable care to ensure that the facts stated and opinions expressed in the Letter (except this letter) are fair and accurate in all material respects and that no material facts have been omitted which would make any statement in the Letter misleading in any respect, and that they collectively and individually accept responsibility accordingly.

Our opinion in this letter is based upon market, economic, industry, monetary and other conditions prevailing on, and the information made available to us as at 11 March 2014 (the "**Latest Practicable Date**"). Such conditions may change significantly over a short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date.

In rendering our advice, we have not had regard to the specific investment objectives, financial situation, tax position, risk profiles or particular needs and constraints of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, we would advise that any individual Shareholder who may require specific advice in the context of his specific investment objectives or portfolio to consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

Our opinion is delivered to the Independent Directors for their deliberation on the IPT Mandate, and the recommendations made by the Independent Directors shall remain solely their responsibility. Our opinion should not be regarded as a recommendation to any Shareholder as to how such Shareholder should vote on the resolutions to be tabled at the AGM or any matter related thereto.

The Company has been separately advised by its own advisers in the preparation of the Letter (other than this letter). We are not involved in and have not provided any advice, financial or otherwise, in the preparation, review and verification of the Letter (other than this letter). Accordingly, we take no responsibility for and express no views, express or implied, on the content of the Letter (other than this letter).

While a copy of this letter may be reproduced in the Letter, neither the Company, the Directors nor the Audit Committee may reproduce, disseminate or refer to this letter or any part thereof for any other purposes (except in relation to the IPT Mandate) at any time and in any manner without the prior written consent of CIMB Bank in each specific case.

### **3. EVALUATION OF THE METHODS AND PROCEDURES FOR THE IPT MANDATE**

#### **3.1. Rationale for the IPT Mandate**

Information on the rationale for the IPT Mandate is set out in paragraph 1 of **Annex II** to the Letter. Shareholders are advised to read paragraph 1 of **Annex II** to the Letter carefully.

#### **3.2. Benefits of the IPT Mandate**

Information on the benefits of the IPT Mandate to the Group is set out in paragraph 4 of **Annex II** to the Letter. Shareholders are advised to read paragraph 4 of **Annex II** to the Letter carefully.

#### **3.3. Interested Person Transactions**

The classes of Interested Persons and categories of Interested Person Transactions which will be covered by the IPT Mandate are set out below.

##### **3.3.1 Classes of Interested Persons**

The IPT Mandate will apply to transactions between the Group and the following:–

- (i) members of the CNAF Group; and
- (ii) members of the BP Group,

each of which is deemed to be an Interested Person that the Group will be transacting with.

The list of members of the CNAF Group and the BP Group and the types of transactions which the CAO Group intends to undertake pursuant to the IPT Mandate, is set out in **Annex III** to this Letter. Members of the CNAF Group and the BP Group which are nominated by the Interested Persons expressly named/listed in **Annex III** to enter into transactions with the CAO Group, are also deemed to be Interested Persons listed in **Annex III** with which the CAO Group may transact under the IPT Mandate.

##### **3.3.2 Categories of Interested Person Transactions**

The IPT Mandate will cover the following transactions:–

###### **Interested Person Transactions with the CNAF Group**

- (i) the sales and purchases of Petroleum Products to the CNAF Group, whether pursuant to the terms of the Supply Agreements or otherwise;

- (ii) the provision and receipt of supply chain services including, but not limited to:
  - (a) the procurement of shipping and logistics services from CNAF Logistics for the transport of Petroleum Products by sea (including the chartering of ships, whether on a time charter or fixed voyage basis, and the rental of tankages); and
  - (b) the provision of import agency services for Petroleum Products to LandOil and other members of the CNAF Group; and
- (iii) the provision of Treasury Services by CNAF Finance to the CAO Group, and the provision of Treasury Services by the CAO Group to Investee Companies which are members of the CNAF Group.

Presently, the CAO Group does not intend to engage in the trading of Derivative Financial Instruments with the CNAF Group. As such, the IPT Mandate does not cover transactions involving the trading of Derivative Financial Instruments with the CNAF Group.

Interested Person Transactions with the BP Group

- (i) Sales of Petroleum Products to members of the BP Group;
- (ii) Purchases of Petroleum Products from members of the BP Group for onward sale to customers;
- (iii) Trading of Derivative Financial Instruments with members of the BP Group;
- (iv) The procurement of supply chain services from members of the BP Group;
- (v) Profit-Sharing Arrangements; and
- (vi) Provision of Services by member(s) of the BP Group.

The details of the above Interested Person Transactions are set out in paragraph 3 of **Annex II** to the Letter.

**3.4. Proposed amendments to the IPT Mandate**

We note the following regarding the proposed amendments to the IPT Mandate:–

- (i) The Company proposes to amend the IPT Mandate to reflect the suspension of the 2011-2014 Collaboration Agreement (excluding the Services) and the Term Contracts for the One-Year Period, pursuant to the Third Supplemental Agreement. The 2011-2014 Collaboration Agreement (including the Term Contracts entered into thereunder but excluding the Services) will expire on 31 December 2014, unless earlier terminated by the mutual agreement of the parties or otherwise in accordance with the 2011-2014 Collaboration Agreement;
- (ii) The Company is proposing to amend the IPT Mandate to state that
  - (a) the 2013 Term Contracts have not been renewed or extended as at the date of the Letter;

- (b) in the event that the 2013 Term Contracts are not renewed or extended and parties enter into new term contracts which provide for trading collaboration arrangements in respect of the supply of aviation fuel, the review procedure which were applicable to the 2013 Term Contracts under the existing IPT Mandate should be equally applicable to transactions conducted under such term contracts, assuming that the agreed premiums applicable for such term contracts during the relevant terms of the term contracts will be reviewed by the Audit Committee in accordance with paragraph 6.2(a) of the IPT Mandate; and
  - (c) if the purchase and supply of aviation fuel under such term contracts is conducted at such predetermined terms and pricing and in line with the terms of the said term contracts which has been reviewed by the Audit Committee in accordance with paragraph 6.2 of the IPT Mandate, then such individual supply and purchase transactions conducted thereunder should not be separately subject to transactional review procedures nor taken into account and aggregated together with prior Interested Person Transactions entered into with BPS for the purposes of determining if the relevant thresholds under paragraph 7 of the IPT Mandate have been crossed;
- (iii) The Company is proposing to make the following amendments in relation to the Supply Chain Services (refer to amendments under paragraphs 3.1.2, 6.6 (to be renumbered paragraph 6.7) and 7.1 of the IPT Mandate):
  - (a) Petroleum Products purchased by the CAO Group on FOB basis may be required to be sold to CNAFCL and Bluesky on CFR basis rather than FOB basis. In this regard, as CNAF Logistics is the only shipping service provider which is able to meet the technical specifications and the delivery schedules to specified ports of destination stipulated by CNAFCL and Bluesky, the CAO Group will be required to obtain freight services from CNAF Logistics for the transportation of the said Petroleum Products to CNAFCL and Bluesky. Where there are no comparable quotes from other shipping service providers, paragraph 6.6(b) is amended to clarify that the transaction in such situations will be reviewed and approved by any two Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether director or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction;
  - (b) CAO and CNAF Logistics have entered into the Term Charter Party Agreement with effect from 1 May 2014 till 30 April 2015 pursuant to which freight services will be provided to the CAO Group at certain pre-agreed rates for the transportation of Petroleum Products for the Term Charter Period and the Company has agreed to charter ships operated by CNAF Logistics for the physical deliveries of the Petroleum Products to the following delivery routes: (1) Gaoqiao-Yangshan; (2) Jinling-Yangshan; (3) Dalian-Tianjin; (4) Yangshan-Puhang; (5) Maoming-Guangzhou; (6) Jinling-Chongqing; (7) Yangshan-Xiamen; (8) Dalian-Qinhuangdao; (9) Gaolan-Guangzhou; and (10) Jinshan-Yangshan. It is intended that the freight charges incurred by the CAO Group under this arrangement will be correspondingly reflected in the increased pricing at which the CAO Group is to sell the Petroleum Products to CNAFCL and Bluesky under their respective Supply Agreements; and
  - (c) The relevant threshold for Supply Chain Services received under the Term Charter Party Agreement is amended from US\$7 million to US\$48 million under paragraph 7.1 of the IPT Mandate. The threshold of US\$7 million will remain applicable for all Supply Chain Services received other than under the Term Charter Party Agreement;

- (iv) The Company is proposing to state in the IPT Mandate proposed to be renewed, with amendments, at the AGM, that as the Term Charter Party Agreement was reviewed by the Audit Committee (instead of two Senior Executives) in accordance with paragraph 6.6(b) of the existing IPT Mandate, accordingly, subjecting individual transactions under the Term Charter Party Agreement to further review and approval by the Audit Committee during the Term Charter Period to protect the interests of the Company and its minority Shareholders or to ensure that such transactions are on normal commercial terms, would not be necessary;
- (v) The Company is also proposing to include in the IPT Mandate a new category of Interested Person Transactions which are Treasury Services provided by (a) CNAF Finance to the CAO Group or (b) the CAO Group to Investee Companies, the rationale, and the relevant review procedures for the Treasury Services (please refer to paragraphs 3.1, 3.1.3 and 6.6 of the IPT Mandate proposed to be renewed, with amendments, at the AGM). Before entering into any contract or transaction in relation to the Treasury Services, any two Senior Executives or such other persons appointed by the Audit Committee will review the comparable offers by at least two other principal bankers. The CAO Group will only enter into such contracts or transactions in relation the Treasury Services if the relevant terms are not less favorable to the CAO Group than what could be obtained by the CAO Group elsewhere in the market; and
- (vi) The Company is also proposing to make the following amendments to the IPT Mandate
  - (a) to amend paragraph 3.1.1 of the IPT Mandate (as reflected in **Annex V**), to state that on 3 January 2014, the Supply Agreement between the Company and CNAFCL previously renewed and extended to 6 August 2014 was further renewed and extended to 6 August 2016 on the same terms; and on 14 February 2014, the Supply Agreement between the Company and Bluesky previously renewed and extended to 1 April 2014 was further renewed and extended to 1 April 2016 on the same terms. The Audit Committee reviewed the renewal and extension of the Supply Agreements and the terms thereof in accordance with the IPT Mandate which was then in force;
  - (b) to amend paragraph 6.2 of the IPT Mandate (as reflected in **Annex V**), to set out the review procedures applicable to any individual transactions conducted subject to and in accordance with the agreed premiums/pricing formulae and other terms under any term contract entered into between the Company and BPS which provides for trading collaboration arrangements in respect of the supply of aviation fuel and reviewed by the Audit Committee, and for which the agreed premiums applicable thereunder were also reviewed by the Audit Committee;
  - (c) to insert new paragraph 6.6 of the IPT Mandate (as reflected in **Annex V**), to state that each submission to the two (2) Senior Executives in relation to the Treasury Services will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with;
  - (d) to amend existing paragraph 6.6 (to be renumbered paragraph 6.7) of the IPT Mandate (as reflected in **Annex V**), to include reference to the provisions of Services by the BP Group, the Treasury Services and the provision of Supply Chain Services pursuant to the Term Charter Party Agreement;

- (e) to amend existing paragraph 6.6 (to be renumbered paragraph 6.7) of the IPT Mandate (as reflected in **Annex V**), to set out that the review procedure thereunder is not separately applicable to any individual transactions conducted subject to and in accordance with the terms of the Term Charter Party Agreement;
- (f) to amend paragraph 7.1 of the IPT Mandate (as reflected in **Annex V**), to include the threshold limit of US\$500 million which would be applicable to the Treasury Services under the IPT Mandate;
- (g) to amend paragraph 7.2 of the IPT Mandate (as reflected in **Annex V**), to add the basis for determining the value of a transaction relating to Treasury Services for determining if the relevant threshold limit has been exceeded;
- (h) to amend paragraphs 3.2.1, 6.1, 6.2 and 6.7 (to be renumbered paragraph 6.8) of the IPT Mandate (as reflected in **Annex V**), to remove all references to the 2013 Term Contracts which expired on 31 December 2013;
- (i) to amend paragraph 3.2.4 of the IPT Mandate (as reflected in **Annex V**), to specifically state that the Profit-Sharing Arrangement under the 2011-2014 Collaboration Agreement has been suspended for the One Year Period; and to remove “Upon the expiry of the One Year Period, the 2011-2014 Collaboration Agreement will come back into force unless otherwise mutually agreed between the parties thereto. Shareholders should note that transactions undertaken under the 2011-2014 Collaboration Agreement are covered by the IPT Mandate.”;
- (j) to amend paragraph 3.2.5 of the IPT Mandate (as reflected in **Annex V**), to remove “Pursuant to the Second Supplemental Agreement, the 2011-2014 Collaboration Agreement has been suspended for the One Year Period. Upon the expiry of the One Year Period, the 2011-2014 Collaboration Agreement will come back into force unless otherwise mutually agreed between the parties thereto. Shareholders should note that transactions undertaken under the 2011-2014 Collaboration Agreement are covered by the IPT Mandate.”;
- (k) to amend paragraph 4.2 of the IPT Mandate (as reflected in **Annex V**), to remove “Upon the expiry of the One Year Period, the 2011-2014 Collaboration Agreement will come back into force unless otherwise mutually agreed between the parties thereto.”; and
- (l) to amend the list of Interested Persons set out in **Annex III**, to include CNAF HKR and CNAF Finance, members of the CNAF Group.

The full text of the IPT Mandate, as proposed to be renewed and amended, is set out in **Annex II** to this Letter.



### **3.5. Review Procedures For Interested Person Transactions**

The review procedures for the Interested Person Transactions are set out in paragraph 6 of **Annex II** to the Letter. Shareholders are advised to read paragraph 6 of **Annex II** to the Letter carefully.

### **3.6. Disclosure**

Disclosure will be made in the Company's annual report the aggregate value of the Interested Person Transactions entered into under the IPT Mandate, as renewed and amended, during the financial year under review, and in the annual reports of subsequent financial years during which the IPT Mandate, as renewed and amended, is in force. In addition, the Company will announce the aggregate value of the Interested Person Transactions entered into pursuant to the IPT Mandate, as renewed and amended, for the financial periods which it is required to report pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report. These disclosures will be in the form set out in Rule 907 of the Listing Manual.

### **3.7. Validity period of the IPT Mandate**

If approved by Shareholders at the AGM, the IPT Mandate, with the proposed amendments, will take effect from the date of the passing of the resolution for the renewal of, and amendments to, the IPT Mandate, to be proposed at the AGM, and shall apply in respect of Interested Person Transactions entered or to be entered into from the date of the AGM until the next annual general meeting of the Company or the date on which the next annual general meeting of the Company is required to be held, whichever is the earlier, unless revoked or varied by the Company in a general meeting.

## **4. CONCLUSION**

In arriving at our opinion on whether the guidelines and review procedures under the amended IPT Mandate are sufficient to ensure that the Interested Person Transactions carried out thereunder will be carried out on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders, we have considered the following:–

- (i) the rationale for the IPT Mandate;
- (ii) the benefits of the IPT Mandate;
- (iii) the classes of Interested Persons and the categories of Interested Person Transactions;
- (iv) the review procedures in relation to the amended IPT Mandate; and
- (v) the role of the Audit Committee in reviewing the Interested Person Transactions and in enforcing the amended IPT Mandate.

Accordingly, we are of the view that the methods and procedures under the amended IPT Mandate, if adhered to, are sufficient to ensure that the Interested Person Transactions carried out thereunder will be carried out on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders.

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 BANK BERHAD,  
SINGAPORE BRANCH**

ERIC WONG  
DIRECTOR  
CORPORATE FINANCE

BENJAMIN CHOY  
DIRECTOR  
CORPORATE FINANCE

## ANNEX V

### PROPOSED AMENDMENTS TO THE IPT MANDATE

*The amendments proposed to be made to the existing IPT Mandate which was renewed at the extraordinary general meeting of the Company held on 25 April 2013 are set out below to show insertions in underline and deletions in strikethrough.*

#### GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS

##### 1. RATIONALE FOR THE IPT MANDATE

The IPT Mandate is intended to facilitate transactions in the ordinary course of business of the CAO Group as described in paragraph 3 of this **Annex II** which are recurrent in nature and may be transacted from time to time with the Interested Persons provided that they are carried out on normal commercial (or, in the absence of other similar comparable transactions, commercially reasonable) terms and are not prejudicial to the interests of the Company and its minority Shareholders.

The IPT Mandate is intended to enhance the CAO Group's ability to pursue business opportunities which are time-sensitive in nature, and will eliminate the need for the Company to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders' approval for the entry by the CAO Group into such transactions. This will substantially reduce administrative time and expenses associated with the making of such announcements or the announcement and convening of general meetings from time to time, and allow manpower resources to be focused towards other corporate and business opportunities.

##### 2. CLASSES OF INTERESTED PERSONS

Under the IPT Mandate, the Interested Persons comprise:

- (a) members of the CNAF Group; and
- (b) members of the BP Group,

each of which is deemed to be an Interested Person that the Group will be transacting with.

The list of members of the CNAF Group and the BP Group and the types of transactions which the CAO Group intends to undertake pursuant to the IPT Mandate, is set out in **Annex III** to this ~~Circular~~Letter. Members of the BP Group and the CNAF Group which are nominated by the Interested Persons expressly named/listed in **Annex III** to enter into transactions with the CAO Group, are also deemed to be Interested Persons listed in **Annex III** with which the CAO Group may transact under the IPT Mandate. It is also to be noted that as the CNAF Group and the BP Group undertake internal restructuring exercises from time to time, the list of members from the respective groups as well as the types of transactions to be transacted with each member will be subject to change.

Paragraph 3 of this **Annex II** sets out the background to, and describes the nature of, the Interested Person Transactions with the CNAF Group and the BP Group respectively which are covered under the IPT Mandate.

### 3. CATEGORIES OF INTERESTED PERSON TRANSACTIONS

#### 3.1 Interested Person Transactions with the CNAF Group

Transactions between the CAO Group and the CNAF Group covered by the IPT Mandate include:

- (a) the sales and purchases of Petroleum Products to the CNAF Group, whether pursuant to the terms of the Supply Agreements or otherwise; ~~and~~
- (b) the provision and receipt of supply chain services including, but not limited to:
  - (i) the procurement of shipping and logistics services from CNAF Logistics for the transport of Petroleum Products by sea (including the chartering of ships, whether on a time charter or fixed voyage basis, and the rental of tankages); and
  - (ii) the provision of import agency services for Petroleum Products to LandOil and other members of the CNAF Group; and
- (c) the provision of Treasury Services by CNAF Finance to the CAO Group, and the provision of Treasury Services by the CAO Group to Investee Companies which are members of the CNAF Group.

Presently, the CAO Group does not intend to engage in the trading of Derivative Financial Instruments with the CNAF Group. As such, the IPT Mandate does not cover transactions involving the trading of Derivative Financial Instruments with the CNAF Group.

##### 3.1.1 Sales and Purchases of Petroleum Products

###### *Supply Agreements*

On ~~30~~ 3 January ~~2012~~2014, the Supply Agreement between the Company and CNAFCL dated 23 March 2010 ~~was~~, which was previously renewed and extended to 6 August 2014, was further renewed and extended to 6 August 2014. On 9 January 2012, 2016, on the same terms. On 14 February 2014, the Supply Agreement between the Company and Bluesky, which was previously renewed and extended to 1 April 2014, was also further renewed and extended to 1 April 2014. The Company 2016, on the same terms. The Audit Committee reviewed the renewal and extension of the Supply Agreements and the terms thereof in accordance with the IPT Mandate which was then in force.

Under the respective Supply Agreements, the Company is to purchase aviation fuel on a proprietary basis (and not as agent of CNAFCL or Bluesky as the case may be), and then sell the aviation fuel to each of CNAFCL and/or Bluesky (or their respective designated import agents) on a proprietary basis.

The pricing at which the Company is to sell aviation fuel to CNAFCL or Bluesky under their respective Supply Agreements is either: (i) through a competitive tender exercise whereby the price charged to CNAFCL or Bluesky is the tender price, plus a fixed margin component, or (ii) at an agreed price based on a market pricing benchmark for the aviation fuel to be supplied, plus a pre-agreed fixed premium and a fixed margin component. In this context, the term “fixed margin” refers to an agreed fixed amount that the Company receives over and above its costs of procuring the aviation fuel; and the term “pre-agreed fixed premium” refers to the additional fixed amount pre-agreed between the Company on the one hand and each of CNAFCL and Bluesky respectively on the other, which is over and above the agreed price/market pricing benchmark (such as from Platts Singapore or any other global provider

of energy pricing information) of the aviation fuel to be supplied. In procuring aviation fuel from the suppliers, the Company also pays its suppliers a premium over and above the cost of the aviation fuel in line with prevailing market practice in the industry. The Company will not proceed with a sale under the method described in (ii) above (i.e., at an agreed price based on a market pricing benchmark for the aviation fuel to be supplied, plus a pre-agreed fixed premium and a fixed margin component), if the overall sale price chargeable to CNAFCL and Bluesky is less than the Company's breakeven price for the aviation fuel.

The Supply Agreements further set out other details regarding the procurement process, such as the periodic requirements for aviation fuel of CNAFCL and Bluesky, tender preparations by the Company, qualifications of suppliers, tender methods and notification of tender results.

**Bluesky is a subsidiary of CNAFCL. As CNAFCL is a subsidiary of CNAF, CNAFCL and Bluesky are therefore interested persons of the Company for the purposes of Chapter 9 of the Listing Manual.**

#### *Ad Hoc Supplies of Aviation Fuel*

In addition to the supply of aviation fuel to CNAFCL and Bluesky under the Supply Agreements, the CAO Group intends to undertake the supply of aviation fuel to, *inter alia*, members of the CNAF Group on an *ad hoc* basis. Where the CAO Group undertakes such supplies of aviation fuel to the CNAF Group, such supplies will be made on terms similar to the Supply Agreements, that is, the relevant products will be procured by the CAO Group on a proprietary basis and sold onward to the CNAF Group at the same premium plus the same fixed margin as referred to under the respective Supply Agreements.

#### *Physical Trading in Petroleum Products*

The CAO Group may engage in the physical trading of Petroleum Products with any member of the CNAF Group if that member meets the Company's eligibility requirements.

The bases for the pricing of Petroleum Products in physical trades to be sold or purchased by the CAO Group are in line with current market practices and involve two (2) pricing components namely, Mean of Platts Singapore ("**MOPS**") plus a fixed premium or less a fixed discount. MOPS refers to the mean of the high and low components of a Platts assessment for cargoes of oil products (including Petroleum Products) loading from Singapore. Platts is a leading global provider of energy and metals information. The amount of premium for a particular transaction is determined by negotiations between the trading parties which will *inter alia* depend on the quality of the Petroleum Products and other relevant market factors and conditions.

The Risk Management Committee holds the overall responsibility of ensuring that risk management controls and processes have been duly followed. This responsibility is delegated to the chief executive officer of the Company and subsequently to the head of risk management of the Company for daily operational activities.

### 3.1.2 Supply Chain Services

#### *Background*

As part of the Company's continuing development of its capabilities, the Company is seeking to optimise its supply chain capabilities through enhancing its current business model. To this end, it seeks to be able to improve its supply chain optimisation capabilities beyond merely ensuring the quality and timely delivery of oil product shipments, to working with traders to ensure the most cost-effective ways to ship oil products in light of the Company's supply and trading portfolio as a whole. For example, rather than chartering ships on individual voyage basis, the Company believes that it may be more efficient operationally and financially to enter into a time charter agreement in respect of a number of physical movements of oil products, or to enter into shipping arrangements with other suppliers on a collaborative basis.

#### *Purchase of Shipping and Logistics Services*

To this end, the Company works with several ship owners and logistics services providers. The key attributes by which these potential suppliers are selected include their competitiveness, their respective track records in handling the quality of oil products which the Company supplies, as well as their presence in the North Asian aviation fuel shipment market. In the course of sourcing for such suppliers, the Company anticipates that it may enter into shipping and logistics services arrangements, such as multiple voyages or time charter contracts, rental of tankages and other aviation fuel transportation arrangements with CNAF Logistics, if it is of the view that CNAF Logistics is able to offer competitive terms for their shipping and logistics services or if CNAF Logistics is the only shipping service provider which is able to meet the technical and delivery specifications stipulated by CAO's end customers. Further, the Company purchases Petroleum Products from various members of the BP Group and in turn sells the same to the receivers in PRC or other buyers. In the course of its supply to such buyers, the Company will in some cases need to purchase shipping and logistics services. ~~For~~As an example, if CAO buys may buy Petroleum Products on FOB basis and ~~sell~~sell the same on CFR basis, for which CAO will require freight services and it may engage CNAF Logistics to provide the freight services. In certain cases, CNAF Logistics may be the only shipping service provider which will be able to meet the technical and delivery specifications stipulated by CAO's end customers. If CAO buys on FOB basis and sells on FOB basis, CAO will not need freight services as CAO's buyer will be responsible for the freight arrangements. If CAO buys on CFR basis and sells on CFR basis, CAO will not need freight services.

For Petroleum Products which the CAO Group buys on FOB basis and sells to CNAFCL and Bluesky on CFR basis, the CAO Group will be required to obtain freight services from CNAF Logistics for the transportation of the said Petroleum Products to CNAFCL and Bluesky, as CNAF Logistics is the only shipping service provider which will be able to meet the technical and delivery specifications stipulated by CNAFCL and Bluesky. To this end, CAO and CNAF Logistics have entered into the Term Charter Party Agreement pursuant to which freight services will be provided to the CAO Group at certain pre-agreed rates for the transportation of Petroleum Products for the Term Charter Period. It is intended that the freight charges incurred by the CAO Group under this arrangement will be correspondingly reflected in the increased pricing at which the CAO Group is to sell the Petroleum Products to CNAFCL and Bluesky.

The Term Charter Party Agreement which shall take effect on 1 May 2014 will expire on 30 April 2015 unless extended or renewed in writing for a further period of one year or such other period as the parties may mutually agree. Under the Term Charter Party Agreement, the Company has agreed to charter ships operated by CNAF Logistics for the physical

deliveries of the Petroleum Products to the following delivery routes: (1) Gaoqiao-Yangshan; (2) Jinling-Yangshan; (3) Dalian-Tianjin; (4) Yangshan-Puhang; (5) Maoming-Guangzhou; (6) Jinling-Chongqing; (7) Yangshan-Xiamen; (8) Dalian-Qinhuangdao; (9) Gaolan-Guangzhou; and (10) Jinshan-Yangshan.

**As CNAF Logistics is a subsidiary of CNAF, CNAF Logistics is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

#### *Supply of Import Agency Services*

As the Group builds up its supply chain optimisation capabilities, there may be other supply-chain and logistics-related services provided or to be provided by the Group to the CNAF Group, such as import agency arrangements that the Group intends to provide to LandOil. Under the import agency arrangements, the Company will be paid a fixed commission that is in line with the margins quoted in the markets for similar supply of import agency services and is determined by a bilateral negotiation between the Company and the relevant member of the CNAF Group (which in cases of import agency services, is LandOil).

**As LandOil is a subsidiary of CNAF, LandOil is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.1.3 Provision of Treasury Services by and to Member(s) of the CNAF Group**

#### *Treasury Services provided by CNAF Finance*

CNAF Finance has an arrangement with members of the CNAF Group pursuant to which such members may place their excess funds with CNAF Finance from time to time, in respect of which CNAF Finance will pay interest at rates which are agreed between parties. In turn, CNAF Finance, which holds primary accounts with banks (“Deposit Banks”) such as Agricultural Bank of China Co, Ltd and PingAn Bank Co., Ltd, will from time to time place such consolidated funds with the Deposit Banks. CNAF Finance is typically able to obtain relatively preferential terms from the Deposit Banks than what would have been generally available to the individual members, given the relatively larger size of the placements, which benefit CNAF Finance will be able to pass on to such members.

CNAF Finance has extended this arrangement to the CAO Group, and from time to time, the CAO Group may also place funds with CNAF Finance for which the CAO Group will receive interest from CNAF Finance on such amounts. The CAO Group may be able to obtain more competitive rates and quotes in an expeditious manner from CNAF Finance for such placement of funds, than what would have been generally available to the CAO Group in the market.

Additionally, the CAO Group may from time to time borrow funds from CNAF Finance. The CAO Group may be able to obtain more competitive rates and quotes for such borrowing of funds provided in an expeditious manner by CNAF Finance, than what would have been generally available to the CAO Group in the market.

All funds placed with CNAF Finance by the CAO Group will be guaranteed by a corporate guarantee provided by CNAF.

The CAO Group is required under PRC law to engage the services of a duly licensed financial institution in the PRC (referred to as “entrust loan arrangement services”) in order to provide loans to Investee Companies based in the PRC. CNAF Finance is duly licensed to provide such entrust loan arrangement services in the PRC. The CAO Group may engage



CNAF Finance for the provision of such entrust loan arrangement services in connection with such loans if CNAF Finance's charges are no higher than what the CAO Group would otherwise have been able to secure in the market.

*Treasury Services provided by the CAO Group to Investee Companies*

The CAO Group may also from time to time provide loans to the Investee Companies and grant guarantees in favour of third parties for the purposes of the Investee Companies. Such Investee Companies may also be Interested Persons, such as CNAF HKR. From time to time, the CAO Group may be required to provide loans to CNAF HKR or grant guarantees in favour of third parties for the purposes of CNAF HKR, which may or may not be in proportion of the CAO Group's equity interest in CNAF HKR. The CAO Group will look to charge interest for the provision of such loans to Investee Companies, at rates which are higher than what is offered in the market, and will also charge fees as appropriate for the grant of such guarantees in favour of third parties for the purposes of the Investee Companies.

**As CNAF is a Controlling Shareholder, each member of the CNAF Group, including CNAF Finance and CNAF HKR, is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.2 Interested Person Transactions with the BP Group**

The CAO Group enters into transactions with the BP Group from time to time in the ordinary course of its business. Transactions with the BP Group that are covered by the IPT Mandate include purchases and/or sales of Petroleum Products and Derivative Financial Instruments to and/or from the BP Group such as:

- (a) sales of Petroleum Products to members of the BP Group;
- (b) purchases of Petroleum Products from members of the BP Group for onward sale to customers;
- (c) trading of Derivative Financial Instruments with members of the BP Group;
- (d) the procurement of supply chain services from members of the BP Group;
- (e) Profit-Sharing Arrangements; and
- (f) provision of Services by member(s) of the BP Group.

### 3.2.1 Physical Trading of Petroleum Products

Given the BP Group's significant presence in the Petroleum Products trading markets, the CAO Group's trading counterparties, amongst others, include members of the BP Group if each such member meets the CAO Group's trading counterparty eligibility requirements.

The PRC Term Contract, which is suspended for the One-Year Period, covers the procurement of aviation fuel by the CAO Group from the BP Group for the purposes of onward sale to the CAO Group's customers in the PRC. Upon the expiry of the One-Year Period, the PRC Term Contract will come back into force unless otherwise mutually agreed between the Company and BPS.

~~The 2013 Term Contracts cover the supply of aviation fuel by the CAO Group to the BP Group to certain destinations in the Middle East and Europe, and the supply of aviation fuel by the BP Group to the CAO Group to certain destinations in the PRC during the 2013 Term Contracts Period.~~

~~In addition to the supply and procurement of aviation fuel under the terms of the 2013 Term Contracts during the 2013 Term Contracts Period and the PRC Term Contract upon the expiry of the One-Year Period, the CAO Group also undertakes the following types of trading transactions with the BP Group (which fall outside the scope of the 2013 Term Contracts and the PRC Term Contract):~~

- (a) sales of Petroleum Products to members of the BP Group, predominantly on a proprietary basis;
- (b) purchases of aviation fuel from members of the BP Group for onward sale to customers outside of the PRC; and
- (c) purchases of Petroleum Products (other than aviation fuel) from the BP Group whether for onward sales to customers of the CAO Group in the PRC or elsewhere.

As disclosed in paragraph 3.1.1 of this **Annex II**, the bases for the pricing of Petroleum Products in physical trades to be sold or purchased by the CAO Group are in line with current market practices and involve two (2) pricing components namely, MOPS, which is information available to the market by Platts plus a fixed premium or less a fixed discount. The amount of premium for a particular transaction is determined by negotiations between the trading parties which will, *inter alia*, depend on the quality of the Petroleum Products and other relevant market factors and conditions.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### 3.2.2 Trading of Derivative Financial Instruments

A wide range of participants trade in the oil products derivatives markets, ranging from banks (such as Morgan Stanley and Goldman Sachs), oil majors (such as the BP Group, Royal Dutch Shell plc and Chevron Corporation), national oil companies (such as Petrolim Nasional Berhad (Petronas), PetroChina Company Limited and Singapore Petroleum Company Ltd) and trading houses (such as Vitol BV and Glencore International AG). Each market participant has different reasons for its involvement in derivatives trading, such as for hedging purposes or proprietary trading. As the BP Group is one of the major players in the market, members of the BP Group are the CAO Group's trading counterparties from time to time.

The Derivative Financial Instrument transactions that the CAO Group enters into, whether with the BP Group or any other counterparties, are conducted on a basis commonly used by the Derivative Financial Instruments markets for oil products around the world. Transactions range from those highly regulated by exchanges such as the New York Mercantile Exchange to over-the-counter (“OTC”) contracts negotiated bilaterally between counterparties. Exchange traded contracts are highly standardised and transparent with commodities exchanges publishing daily volumes traded and closing prices. While OTC contracts are negotiated bilaterally, they are generally standardised in nature with slight variations in contractual terms as agreed between counterparties. The high degree of standardisation in OTC contracts enables such contracts to have increased transparency and hence, liquidity in the derivatives market. In the Singapore market, the most common oil Derivative Financial Instruments are swaps which are commonly traded on an OTC basis. Market participants could either trade directly with each other, or more commonly, through brokers. Depending on the nature of the commodity, there could be one or more brokers operating in the market. Brokers obtain their quotes independently of other market participants, and as such brokers’ quotations are accepted by the Derivative Financial Instruments industry as indications of the market value of a Derivative Financial Instrument. As such, Platts (an independent source of oil prices) also uses brokers’ quotations in their price considerations.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.2.3 Procurement of Shipping and Logistics Services**

In line with the Company’s plans to optimise its supply chain capabilities and for so long as the BP Group is in the view of the Company able to provide shipping and logistics services on competitive terms, the CAO Group may from time to time procure such services from the BP Group. The services procured from the BP Group include the chartering of vessels from the BP Group on time charter agreement in respect of a number of physical movements of oil products, the rental of tankages from the BP Group, or the entry into of shipping arrangements together with the BP Group on a collaborative basis.

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.2.4 Profit-Sharing Arrangements**

In line with the Company’s intention to collaborate with the BP Group to achieve long-term strategic growth and development, the member(s) of the CAO Group and the member(s) of the BP Group may agree to pool together certain Petroleum Products for onward sale and to share the profits and/or losses generated from such Petroleum Products. Under such a Profit-Sharing Arrangement, the losses of the member(s) of the CAO Group may, where appropriate, be capped at an amount to be agreed among the relevant member(s) of the CAO Group and the relevant member(s) of the BP Group.

The 2011-2014 Collaboration Agreement comprises, *inter alia*, a Profit-Sharing Arrangement between the Company and BPS. Pursuant to the ~~Second~~Third Supplemental Agreement, the Profit-Sharing Arrangement ~~has~~2011-2014 Collaboration Agreement has been suspended for the One-Year Period. ~~Upon the expiry of the One-Year Period, the 2011-2014 Collaboration Agreement will come back into force unless otherwise mutually agreed between the parties thereto. Shareholders should note that transactions undertaken under the 2011-2014 Collaboration Agreement are covered by the IPT Mandate.~~

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

### **3.2.5 Provision of Services by Member(s) of the BP Group**

In line with the Company's continuing plans to build on and strengthen its position in the relevant markets, the CAO Group may from time to time opt to tap on the relevant expertise, industry know-how (such as information-sharing, marketing, training and risk management, secondment of staff and other related services) and business networks of member(s) of the BP Group by entering into agreements for the provision of Services with member(s) of the BP Group.

The 2011-2014 Collaboration Agreement provides, *inter alia*, for the provision of Services by BPS to the Company at no fee (save for Services relating to secondment of staff and training, which will be provided on terms to be agreed between BPS and the Company). Pursuant to the ~~Second Supplemental Agreement, the 2011-2014 Collaboration Agreement has been suspended for the One-Year Period. Upon the expiry of the One-Year Period, the 2011-2014 Collaboration Agreement will come back into force unless otherwise mutually agreed between the parties thereto. Shareholders should note that transactions undertaken under the 2011-2014 Collaboration Agreement are covered by the IPT Mandate.~~

**As BPIA is a Controlling Shareholder, each member of the BP Group is therefore an interested person of the Company for the purposes of Chapter 9 of the Listing Manual.**

## **4. BENEFITS OF THE INTERESTED PERSON TRANSACTIONS TO THE GROUP**

### **4.1 Benefits of Transacting with the CNAF Group**

The transactions with the CNAF Group contribute a substantial portion of the revenue of the Company, and in fact as at the Latest Practicable Date, the transactions under the Supply Agreements contribute significantly to the revenue of the Company. Under the Supply Agreements, the Company is assured of a fixed margin over its costs of supply of aviation fuel to the Interested Persons for its procurement services.

Through the Supply Agreements, the Company was appointed the exclusive supplier of all imported aviation fuel requirements of CNAFCL and Bluesky sourced from outside of the PRC (in respect of the airports in Beijing Capital International Airport and Guangzhou Baiyun International Airport respectively), on a proprietary basis. Since 6 August 2008, being the date the IPT Mandate was first adopted and approved, and to the extent that the relevant Interested Persons have requirements for imported aviation fuel during the term of the Supply Agreements, the Company will be their exclusive procurement supplier. Each of the Supply Agreements will be extended or renewed for a further term upon the mutual agreement of the parties.

A key benefit of obtaining a mandate for interested person transactions with the CNAF Group in relation to the trading of Petroleum Products is that it provides the CAO Group with an increased number of potential trading partners, thereby giving the CAO Group additional options and flexibility in managing its business and trading strategy in relation to the Petroleum Products.

In relation to the procurement of supply chain services from the CNAF Group, CNAF Logistics possesses logistics facilities for the transportation of aviation fuel, including tanker, jetty, pipeline and shipping facilities. Cooperation between the Company and CNAF

Logistics will afford the Company an opportunity to extend its supply chain capabilities, for example, by being able to offer integrated supply chain services for petrochemical products and to arrange for international shipping to domestic transportation.

The provision of import agency services to members of the CNAF Group (including LandOil) will provide the CAO Group with an opportunity to develop its capabilities and expand the range of products offered to its customers.

#### **4.2 Benefits of Transacting with the BP Group**

The Company continues to seek to increase the scope of its ordinary trading operations with suitable players in the market both in terms of increasing the variety of products it can trade in, as well as enlarging its customer base to reach markets beyond the PRC, in order to increase the sources of income for the Company. As the BP Group is one of the major players in the oil products derivatives markets, one of the key benefits of obtaining the IPT Mandate is that it provides the CAO Group with an increased number of potential trading partners, thereby giving the CAO Group additional options and flexibility in managing its business and trading strategy in relation to Petroleum Products and Derivative Financial Instruments. Also, this is in line with CAO's aim to trade with all the major players in the oil products derivatives markets such that the Company can obtain the most competitive prices for its transactions. Further, the CAO Group expects to benefit from the synergies arising from the collaboration with the BP Group on supply chain services.

While the CAO Group is a key supplier of imported aviation fuel in the PRC market, it has a minor presence in other markets and has found it difficult to penetrate into them on its own in order to grow geographically. Obtaining competitive pricing for a small player in these markets is often difficult. The BP Group, on the other hand, is one of the dominant players in the Australian, Middle Eastern, Singaporean and European markets. Entering into Profit-Sharing Arrangements with member(s) of the BP Group will enable the CAO Group to leverage on the BP Group's network to grow competitively in these new markets, and provide the CAO Group with an opportunity to increase its recurrent income through an additional source while minimising its risk exposure as well as a potential avenue for the CAO Group to explore various opportunities for long-term strategic business growth and development with members of the BP Group. This is in line with the Company's long-term goal of cooperating on a long-term basis with the BP Group to strengthen the Company's capability in the international procurement of Petroleum Products and to ensure the secure supply of such Petroleum Products to the Company on competitive terms for its onward sale and supply to buyers in the PRC. For example, the Profit-Sharing Arrangement under the 2011-2014 Collaboration Agreement would (a) enable the Company to extend its oil trading business, (b) provide a platform for both the Company and BPS to build on their respective strengths to grow the base business of the Shared Pool under the 2011-2014 Collaboration Agreement and (c) provide the Company with access to global markets. Accepting Services from the member(s) of the BP Group will also provide the CAO Group with an invaluable resource as the CAO Group will be able to tap on the relevant expertise, industry know-how (such as information-sharing, marketing, training, risk management, secondment of staff and other related services) and business networks of such member(s) of the BP Group or to reap the benefits of efficiencies and economies of scale through the provision of Services by the member(s) of the BP Group for the CAO Group's and the BP Group's mutual benefits. In this way, the Company can continue to build on and strengthen its position in the relevant markets. Pursuant to the ~~Second~~Third Supplemental Agreement, the 2011-2014 Collaboration Agreement (save for the Services) has been suspended for the One-Year Period. ~~Upon the expiry of the One-Year Period, the 2011-2014 Collaboration Agreement will come back into force unless otherwise mutually agreed between the parties thereto.~~

## **5. TRANSACTIONS NOT COVERED BY IPT MANDATE**

### **5.1 Transactions under the Pipeline Services Contract**

As prior Shareholders' approval has been obtained for the provision of pipeline transportation services by TSN-PEKCL to CNAFCL under the Pipeline Services Contract, the IPT Mandate does not cover such transactions pursuant to the Pipeline Services Contract. However, any variation of the terms of the Pipeline Services Contract which have been outlined in the Company's circular to Shareholders dated 15 December 2008 and any variations in the prices charged for pipeline transportation services, will be subject to Chapter 9 of the Listing Manual.

### **5.2 Transactions outside the Scope of the IPT Mandate**

Transactions with the Interested Persons which do not fall within the ambit of the IPT Mandate shall be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual. Shareholders are also to note that the IPT Mandate does not extend to include the trading of Derivative Financial Instruments between the CAO Group and the CNAF Group.

The IPT Mandate does not cover any transaction by a company in the Group with Interested Persons that is below S\$100,000 in value as the threshold and aggregation requirements of Chapter 9 of the Listing Manual would not apply to such transactions. In addition, the IPT Mandate does not include transactions for the purchase or sale of assets, undertakings or businesses with the Interested Persons.

## **6. REVIEW PROCEDURES FOR INTERESTED PERSON TRANSACTIONS**

To ensure that the Interested Person Transactions 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, as a general rule the CAO Group will only enter into transactions with the Interested Persons if the terms offered by or extended to the Interested Persons are respectively no less favourable or more favourable than the terms that may be obtainable from or extended to unrelated third parties.

### **6.1 Review procedures for determination of premium or amendment of premium or margin under the Supply Agreements, and the PRC Term Contract ~~and the 2013 Term Contracts~~, and for extension or renewal of the Supply Agreements, and the PRC Term Contract ~~and the 2013 Term Contracts~~**

To ensure that any determination of the premium payable under the Supply Agreements, or the PRC Term Contract ~~or the 2013 Term Contracts~~, any amendment of the premium or margin under the Supply Agreements, or the PRC Term Contract ~~or the 2013 Term Contracts~~, and any future extension or renewal of the Supply Agreements, or the PRC Term Contract ~~or the 2013 Term Contracts~~, will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders, the Audit Committee has adopted the following review procedures:

- (a) If, as of the date on which the CAO Group proposes to determine the premium payable under the Supply Agreements, or the PRC Term Contract ~~or the 2013 Term Contracts~~, or amend the premium or margin under the Supply Agreements, or the PRC Term Contract ~~or the 2013 Term Contracts~~, or extend or renew any Supply Agreement, or the PRC Term Contract ~~or any 2013 Term Contract~~ (as the case may be), the CAO Group does not supply or purchase aviation fuel, the product being supplied under the



relevant contract, of the same or similar specifications as specified under the relevant contract, in any significant amount to or from other unrelated third parties (as the case may be), so that it is not possible to compare the proposed premium or margin or proposed terms of the extended or renewed Supply Agreement, or PRC Term Contract ~~or 2013 Term Contract~~ (as the case may be) against the premium, margin and/or terms of other transactions with unrelated third parties, the premium or margin or the CAO Group's pricing for its supply or purchase of aviation fuel of the relevant specifications to or from Interested Persons (as the case may be) as set out in the extended or renewed Supply Agreement, or PRC Term Contract ~~or 2013 Term Contract~~ (as the case may be) will be verified by any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transactions concerned and shall not be involved in the negotiations of the premium or margin or the negotiations of the extension or renewal of the relevant Supply Agreement, or the PRC Term Contract ~~or the 2013 Term Contract~~ (as the case may be).

In undertaking such verification, the two (2) Senior Executives or other appointed persons will, on a best efforts basis, obtain reference prices and/or quotations from the external markets via the CAO Group's existing aviation fuel suppliers (for example, by obtaining from such suppliers indicative margins and premiums that they are charging for their sales and estimates of freight charges for delivering the aviation fuel of the relevant specifications to the relevant destination). They will then verify that the proposed margin and/or premium is/are consistent with or better than such indicative market rates as a rough benchmark or gauge of the then applicable pricing of aviation fuel.

It is to be noted that there are limitations on making meaningful and fair comparisons of reference prices and quotations for aviation fuel imports into the PRC, as CAO currently only supplies aviation fuel (sourced from outside the PRC) in substantial amounts to CNAFCL and Bluesky for imports into the PRC and does not supply aviation fuel in any significant amount to other unrelated third parties, and it is difficult to obtain comparable reference prices and quotations on a like-for-like basis due to differences in sizes, delivery dates, quantity loads and locations of cargoes.

- (b) If, as of the date on which the CAO Group proposes to determine the premium payable under the Supply Agreements, or the PRC Term Contract ~~or the 2013 Term Contracts~~, or amend the premium or margin under the Supply Agreements, or the PRC Term Contract ~~or the 2013 Term Contracts~~, or extend or renew any Supply Agreement, or the PRC Term Contract ~~or any 2013 Term Contract~~ (as the case may be), the CAO Group does supply or purchase aviation fuel, the product being supplied or purchased under the relevant contract, of the same or similar specifications as specified under the relevant contract, in a significant amount to or from other unrelated third parties (as the case may be), the price and terms of at least two (2) other successful sales or purchases of aviation fuel of the relevant specifications to or from unrelated third parties (as the case may be) will be used as a basis for comparison, whenever possible, to determine whether the premium or margin or the prices and terms proposed to be included in the extended or renewed Supply Agreement, or PRC Term Contract ~~or 2013 Term Contract~~ (as the case may be) are comparable to those offered by unrelated third parties for such successful sales or purchases (as the case may be) of aviation fuel of the relevant specifications, taking into account all pertinent factors including, but not limited to, price, quality, delivery time and track record, to ensure that the interests of its minority Shareholders are not disadvantaged.



The Company confirmed that the agreed premium applicable for the period under the PRC Term Contract was reviewed in accordance with this paragraph 6.1 of this Annex II.

**6.2 Review procedures for transactions with the Interested Persons involving purchases and/or sales of Petroleum Products (other than under the Supply Agreements, and the PRC Term Contract and the 2013 Term Contracts)**

In respect of transactions comprising purchases and/or sales of Petroleum Products by the CAO Group from or to any Interested Person, in addition to the credit assessment process undertaken by the CAO Group on all potential parties for Petroleum Products before accepting that Interested Person as a counterparty:

- (a) When selling and purchasing Petroleum Products to and from an Interested Person, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract shall, where practicable or possible, compare the terms offered by or to the Interested Person against the terms of at least one (1) other quotation obtained from unrelated third parties of similar quantities and/or quality of the relevant Petroleum Products, prior to the entering into of the contract or transaction with the Interested Person, as a basis for comparison, and such comparisons, if any, are to be documented. In determining the competitiveness of the quotations (including those by and to the Interested Person), all pertinent factors, including but not limited to pricing, quality, delivery time and track record, and where applicable, preferential rates, rebates or discounts accorded for bulk purchases and the terms of any Profit-Sharing Arrangement that may be applicable in respect of the sale or purchase, will be taken into consideration. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.

For the purposes of this review procedure in determining whether it is practicable or possible to compare the terms offered by or to the Interested Person against the terms of at least one (1) other quotation obtained from unrelated third parties, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract, shall follow the existing control guidelines approved by the Audit Committee. Amendments to the control guidelines shall be made in accordance with any subsequent changes to the IPT Mandate, and will be subject to review by the internal auditors from time to time.

- (b) Where such quotations are not obtainable, the transactions with the Interested Person will be reviewed against recent actual transactions of similar nature published in recognised industry publications or as published on a recognised commodities exchange. In determining the competitiveness of these published terms, the two (2) Senior Executives involved in the review will have to take into consideration the same pertinent factors as mentioned above.

- (c) Due to the nature of the markets in which the CAO Group operates, involving purchases and/or sales of Petroleum Products, situations will commonly occur wherein there are no available quotations from unrelated third party suppliers or purchasers, and published rates of recent actual transactions of similar nature published in recognised industry publications or as on recognised commodities exchanges are not available, applicable or comparable. For all such situations the transaction will be reviewed and approved by any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract, after taking into consideration factors such as, but not limited to, delivery schedules, market pricing, quantity, credit terms, the margin that CAO Group will receive if CAO is acting as reseller of the Petroleum Products that are purchased, the restrictive business or regulatory environment in which the CAO Group operates and the transaction is undertaken, and where applicable, the terms of any Profit-Sharing Arrangement that may be applicable in respect of the sale or purchase. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.
- (d) Due to the nature of the markets in which the CAO Group operates, involving purchases and sales of Petroleum Products, situations will also commonly occur where a trader acting for the CAO Group may conduct purchases and/or sales of Petroleum Products via a voice-based, online or electronic telecommunication-based trading platform where transactions are fast-paced and undertaken in a series of buy or sell prices offered by traders or brokers which are accepted by other traders or brokers participating in the trading platform. In the case of the voice-based trading platform, the CAO Group appoints broker(s) to source for quotes from the market which are then provided to the CAO Group's traders for confirmation. In all these cases, the CAO Group's trader in practice may be required to enter into an almost instantaneous transaction based on his assessment of the best available price then quoted on the trading platform. The counterparty may or may not be identified at the time of commitment to the transaction, and accordingly, it may not be possible for the CAO Group to determine whether the counterparty is or is not an Interested Person until the transaction is completed. In the cases where broker(s) are appointed by the CAO Group to source for quotes, the broker will be an independent party with no interest (whether direct or indirect) in the transaction save for the receipt of commission. At the time of commitment to the transaction, the transaction shall only be entered into: (i) in the case of a purchase of Petroleum Products by the CAO Group, at the trader's assessment of the lowest available price quoted on the trading platform for the CAO Group's order at the material time, and (ii) in the case of a sale of Petroleum Products by the CAO Group, at the trader's assessment of the highest available price quoted on the trading platform for volume of Petroleum Products intended to be sold by the CAO Group at the material time. Each trade confirmation will be forwarded to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the procedures set out in this paragraph 6.2(d) have been complied with.

~~The Company confirms that~~In respect of any term contract entered into between the Company and BPS which provides for trading collaboration arrangements in respect of the supply of aviation fuel, which has been reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with paragraph 6.2(a) above prior to entry, and for which the agreed premiums applicable for the 2013 Term Contracts were reviewed in accordance with paragraph 6.2(a) of the IPT Mandate which was renewed at the extraordinary general meeting of the Company held on 26 April 2012, and therefore thereunder were also reviewed by the Audit Committee, the review procedures under this paragraph 6.2 shall not separately apply in respect of any individual transactions conducted subject to and in accordance with the agreed premiums/pricing formulae and other terms under the 2013 Term Contracts. Paragraph 6.2(a) of the IPT Mandate is essentially identical to paragraph 6.2(a) of the IPT Mandate which was renewed at the extraordinary general meeting of the Company held on 26 April 2012, save for the amendments as set out in paragraph 2.2.3(a) of the circular to Shareholders dated 27 March 2013. such term contract; and the review procedures under paragraph 6.1 above shall apply in respect of any determination of the premium payable under such term contract, any amendment of the premium or margin under such term contract, and any future extension or renewal of the such term contract, to ensure that the same will be on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

*Ad hoc* supplies of Petroleum Products (other than supply of aviation fuel to the CNAF Group which is covered under paragraph 6.76.8 of this **Annex II**) will be reviewed in accordance with this paragraph 6.2 of this **Annex II**.

### **6.3 Review procedures for transactions with the Interested Persons involving the trading of Derivative Financial Instruments**

In addition to the credit assessment process undertaken by the CAO Group on all potential parties in relation to Derivative Financial Instruments before accepting that Interested Person as a counterparty, the following review procedure will be applied in respect of the trading of Derivative Financial Instruments between the CAO Group and an Interested Person:

- (a) Prior to entering into any contract or transaction in connection to the trades of Derivative Financial Instruments with any Interested Person, any two (2) Senior Executives who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the price and other associated costs (such as brokerage fees, foreign currency and bank commissions) offered by the Interested Persons against the price and associated costs (such as brokerage fees, foreign currency and bank commissions) of at least one (1) other quotation obtained from unrelated third parties for a Derivative Financial Instrument with similar terms. The CAO Group shall use such comparison as a basis when entering into the contract or transaction with the Interested Person, and such comparisons are to be documented. Each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.

- (b) Due to the nature of the markets in which the CAO Group operates, involving trading of Derivative Financial Instruments, situations will also commonly occur where a trader acting for the CAO Group may conduct such trades via a voice-based, online or electronic telecommunication-based trading platform where transactions are fast-paced and undertaken in a series of buy or sell prices offered by traders or brokers which are accepted by other traders or brokers participating in the trading platform. In the case of the voice-based trading platform, the CAO Group appoints broker(s) to source for quotes from the market which are then provided to the CAO Group's traders for confirmation. In all these cases, the CAO Group's trader in practice may be required to enter into an almost instantaneous transaction based on his assessment of the best available price then quoted on the trading platform. The counterparty may or may not be identified at the time of commitment to the transaction, and accordingly, it may not be possible for the CAO Group to determine whether the counterparty is or is not an Interested Person until the transaction is completed. In the cases where broker(s) are appointed by the CAO Group to source for quotes, the broker will be an independent party with no interest (whether direct or indirect) in the transaction save for the receipt of commission. At the time of commitment to the transaction, the transaction shall only be entered into at the trader's assessment of the price quoted on the trading platform for the CAO Group's order which is the most favourable available price to the CAO Group at the material time. Each trade confirmation will be forwarded to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the procedures set out in this paragraph 6.3(b) have been complied with.

#### **6.4 Review procedures for the Profit-Sharing Arrangements**

To ensure that the determination or amendment of the profit-sharing ratio or other terms (such as, where applicable, any cap on the losses of member(s) of the CAO Group) under the Profit-Sharing Arrangements will not be prejudicial to the interests of the Company and its minority Shareholders, and given that it is expected that most Profit-Sharing Arrangements will be one-off and unique to the BP Group in the light of its relationship with the CAO Group, the Audit Committee will review all Profit-Sharing Arrangements with the aim of ensuring that they are on normal commercial terms and not prejudicial to the Company or its minority Shareholders.

In its review, the Audit Committee will examine, *inter alia*, the historical aggregate net contribution to profits of each of the BP Group and the CAO Group respectively under the relevant Profit-Sharing Arrangement during the relevant period and compare them against each other, and make appropriate and reasonable adjustment(s) where feasible to the profit-sharing ratio and/or the terms of the Profit-Sharing Arrangement if and when it is determined that either the BP Group or the CAO Group is/are consistently under-contributing as compared to the other under the Profit-Sharing Arrangement.

The entry into any agreement by the Company and/or by any other member(s) of the CAO Group to provide for a Profit-Sharing Arrangement with member(s) of the BP Group, and any review or amendment of the terms of the Profit-Sharing Arrangement, will be approved by the Board. As required under Article 102 of the Articles of Association of the Company, Directors with a direct or indirect personal material interest in the agreement will abstain from voting on the resolution.

## **6.5 Review procedures for the provision of Services by the BP Group**

When procuring Services to be provided by member(s) of the BP Group, two (2) other quotations from unrelated third party providers of similar services will be obtained for comparison to ensure that such Interested Person Transactions are conducted on normal commercial terms and which are not prejudicial to the interests of the Company and its minority Shareholders. Any fee to be paid by member(s) of the CAO Group for the Services shall not be higher than the most competitive fee of the two (2) other quotations from unrelated third parties. In determining the most competitive fee, all pertinent factors, including but not limited to quality, reliability in delivery and track record will be taken into consideration. In addition, the credit terms obtained from the member(s) of the BP Group shall not be less favourable than those obtained from unrelated third parties.

Where such quotations are not obtainable (for instance, if there are no unrelated third party providers of such similar services), any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the contract or transaction for the provision of Services with member(s) of the BP Group and shall not be involved in the negotiations of the relevant contract or transaction, will determine whether the fee and terms offered by the member(s) of the BP Group are fair and reasonable. In determining whether the fees and terms offered by the member(s) of the BP Group are fair and reasonable, the two (2) Senior Executives involved in the review will have to take into consideration the same pertinent factors as mentioned above.

The entry into any agreement by the Company and/or by any other member(s) of the CAO Group for the provision of Services by member(s) of the BP Group, and any review or amendment of the terms of the provision of Services, will be approved by the Board. As required under Article 102 of the Articles of Association of the Company, Directors with a direct or indirect personal material interest in the agreement will abstain from voting on the resolution.

## **6.6 Review procedures for Treasury Services**

The following review procedures will be applied in respect of the receipt and provision of Treasury Services between the CAO Group and an Interested Person:

- (a) Prior to entering into any contract or transaction with CNAF Finance in respect of any placement of funds by the CAO Group with CNAF Finance, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee, who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction, shall compare the interest rates for such placements offered by CNAF Finance with the interest rates quoted by at least two (2) other principal bankers of the Company for deposits of an equivalent amount and for an equivalent period. The request made to the principal bankers of the Company shall also be made by a person who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction. The CAO Group will only place funds with CNAF Finance, if the interest rate quoted by CNAF Finance is higher than the highest of the interest rates quoted by such principal bankers.

- (b) Prior to entering into any contract or transaction with CNAF Finance in respect of any borrowing of funds by the CAO Group from CNAF Finance, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee, who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction, shall compare the interest rates for such borrowings offered by CNAF Finance with the interest rates quoted by at least two (2) other principal bankers of the Company for borrowings of an equivalent amount and for an equivalent period. The request made to the principal bankers of the Company for the quote shall also be made by a person who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction. The CAO Group will only borrow funds from CNAF Finance if the interest rate quoted by CNAF Finance is lower than the lowest of the interest rates quoted by such principal bankers.
- (c) Prior to entering into any contract or transaction with any Investee Company in respect of any provision of loans to Investee Companies, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the interest rates for such loans charged by the CAO Group with the equivalent lending interest rates quoted by at least two (2) other principal bankers of the Company. The CAO Group will only provide loans in favour of Investee Companies if the interest rate charged by the CAO Group is higher than the highest rate quoted by such principal bankers.
- (d) Prior to entering into any contract or transaction with any Investee Company in respect of any grant of guarantees in favour of third parties for the purposes of the Investee Companies, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the fees for the grant of such guarantees charged by the CAO Group with the equivalent fees quoted by at least two (2) other principal bankers of the Company. The CAO Group will only provide guarantees in favour of third parties for the purposes of the Investee Companies if the fees charged by the CAO Group are higher than the highest rate quoted by such principal bankers.
- (e) Prior to entering into any contract or transaction with CNAF Finance in respect of any provision of entrust loan arrangement services for the purpose of the provision of loans by the CAO Group to Investee Companies based in the PRC, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction shall compare the charges for such entrust loan arrangement services with the equivalent charges quoted by at least two (2) other principal bankers of the Company. The CAO Group will only engage CNAF Finance for such entrust loan arrangement services if CNAF Finance's charges are no higher than the lowest rate quoted by such principal bankers.



In each case above, each submission to the two (2) Senior Executives will be copied to the Company's head of finance, deputy head of finance, and head of legal, for the Company's finance team to record the transaction for the purposes of reporting and aggregation of the transaction as an Interested Person Transaction and for the Company's legal team to ascertain that the review procedures have been complied with.

#### **6.66.7 Review procedures for other categories of transactions with Interested Persons**

In respect of any goods and/or services obtained from or provided to any Interested Person (other than the sale of aviation fuel pursuant to the Supply Agreements, any extension or renewal of the Supply Agreements or the PRC Term Contract, the Profit-Sharing Arrangements and provision of Services by BPS under the 2011-2014 Collaboration Agreement, transactions under the PRC Term Contract, ~~transactions under the 2013 Term Contracts and the provisions of Services by the BP Group,~~ the purchase and sale of Petroleum Products and Derivative Financial Instruments, the Treasury Services and the provision of Supply Chain Services pursuant to the Term Charter Party Agreement):

- (a) All contracts entered into or transactions with an Interested Person are to be carried out by obtaining quotations (wherever possible or available) from at least two (2) other unrelated third party suppliers for similar quality services, prior to entry into the transaction with the Interested Person, as a basis for comparison to determine whether the price and terms offered by or to the Interested Person is comparable to those offered by unrelated third parties for the same or substantially similar type of services.
- (b) Where such quotations are not possible, available or commercially feasible to obtain given that there are no unrelated third party suppliers of similar services (for instance, where there is no unrelated third party service provider which will be able to meet the technical and delivery specifications stipulated by CAO's customers) or the commercial sensitivity of the subject matter, any two (2) Senior Executives or such other persons as may be appointed by the Audit Committee who shall have no interest (whether direct or indirect) in the Interested Person Transaction concerned and shall not be involved in the negotiations of the relevant contract or transaction, will determine whether the price and terms offered by or to the Interested Person are fair and reasonable. In determining whether the price and terms offered by or to the Interested Person are fair and reasonable, factors such as, but not limited to, delivery schedules, quality of advice or training and track record will be taken into account.

As the Term Charter Party Agreement was reviewed by the Audit Committee (instead of two (2) Senior Executives) in accordance with paragraph 6.6(b) of the IPT Mandate which was renewed at the extraordinary general meeting of the Company held on 25 April 2013, the review procedures under this paragraph 6.7 shall not separately apply in respect of any individual transactions conducted subject to and in accordance with the terms of the Term Charter Party Agreement.

**6.76.8** For the avoidance of doubt, as supply of aviation fuel under the Supply Agreements and *ad hoc* supplies of aviation fuel to the CNAF Group are conducted at the predetermined terms and pricing set out in the Supply Agreements and the premium and margin as determined in accordance with paragraph 6.1 of this **Annex II**, purchase of aviation fuel under the PRC Term Contract are conducted at the predetermined terms and pricing set out in the PRC Term Contract and the premium and margin as determined in accordance with paragraph 6.1 of this **Annex II**, and purchase and supply of aviation fuel under ~~the 2013 Term Contracts~~ are any term contract which is conducted at the such predetermined terms and pricing set out in the 2013 Term Contracts and the premium and margin as determined and in line with the terms of the said term contract which has been reviewed by the Audit



Committee in accordance with paragraph 6.2 of this **Annex II**, such individual supply and purchase transactions are not separately subject to transactional review procedures nor are they taken into account and aggregated together with prior Interested Person Transactions entered into with members of the CNAF Group or the BP Group for a given month for the purposes of determining if the relevant thresholds as set out in the table in paragraph 7 of this **Annex II** have been crossed (and hence not be subject to further review and approval by the Audit Committee prior to the entry into such transactions).

## 7. THRESHOLD LIMITS

7.1 The Audit Committee will review all of the CAO Group's Interested Person Transactions, including transactions covered under the IPT Mandate, on a quarterly basis. Where the value of an Interested Person Transaction with the same group of Interested Persons, namely, BP Group or CNAF Group (when aggregated together with prior Interested Person Transactions entered into for a given month) exceeds the relevant threshold as set out in the table below, the Interested Person Transaction will be reviewed and approved by the Audit Committee prior to the entry into such transaction.

<b>Transaction Type</b>	<b>Applicable Threshold*</b>
Purchase and Sale of Petroleum Products	US\$576 million if the Average Barrel Price for the immediately preceding month is US\$120 or less
Purchase and Sale of Petroleum Products	US\$691 million if the Average Barrel Price for the immediately preceding month exceeds US\$120
Trading of Derivative Financial Instruments	US\$30 million
Supply Chain Services	<u>US\$7 million for all Supply Chain Services provided other than pursuant to the Term Charter Party Agreement</u>
<u>Supply Chain Services</u>	<u>US\$48 million for all Supply Chain Services provided pursuant to the Term Charter Party Agreement</u>
Services provided by members of the BP Group	US\$1 million
<u>Treasury Services</u>	<u>US\$500 million</u>

\* Threshold based on aggregate value of the relevant type of transactions, calculated over a given month.

7.2 For the purpose of determining whether the above thresholds have been exceeded, the value of a transaction relating to:

- (a) a purchase or sale of Petroleum Products, shall be the aggregate value of the Petroleum Products payable or receivable from the Interested Person, determined as set out in paragraph 7.3 of this **Annex II**; ~~and~~
- (b) a trade in Derivative Financial Instruments, shall be the mark-to-market value of the Derivative Financial Instruments calculated by using the market quoted forward curves published daily by Platts, and/or independent brokers' quotations; and

(c) Treasury Services, shall be the gross aggregate value of the Treasury Services received or provided by the CAO Group for each month of the Company's financial year. In line with Rule 909 of the Listing Manual, the value of Treasury Services involving (i) the borrowing of funds from an Interested Person is the interest payable on the borrowing; (ii) the lending of funds to or placing of funds with an Interested Person is the aggregate of the interest payable and the value of the funds lent or placed; and (iii) the provision of guarantees is the aggregate of the value of the obligations guaranteed and the fees payable for such guarantees.

**7.3** For the purposes of paragraph 7.2(a) of this **Annex II**, the aggregate value of the Petroleum Products payable or receivable from the Interested Persons under a transaction is determined by taking the aggregate estimated total price payable under the transaction, based on the volume to be delivered as estimated at the time of entry into the transaction and set out in the contract. The price in turn may be pegged to (a) the forward price quotations obtained from two or more brokers or dealers for the relevant Petroleum Product traded on an OTC basis, (b) the forward price quotation for the relevant Petroleum Product obtained from Platts, or (c) the forward price quotation for the relevant Petroleum Product as published by relevant commodities exchange(s) such as the New York Mercantile Exchange, as at the time of entry into the contract, for delivery in the month of the contracted delivery date or in the preceding month or specified number of months prior to the contracted delivery date, as agreed in the contract, and incorporating any agreed premium or margin as set out in the contract.

## **8. GENERAL REVIEW PROCEDURES**

Apart from the review procedures specific to the relevant transactions above, the following general review procedures will apply to all Interested Person Transactions under the IPT Mandate:

- (a) The finance department of the Company will maintain a register of transactions carried out with the Interested Persons pursuant to the IPT Mandate and the Company's internal audit plan will incorporate a review of all Interested Person Transactions transacted in the relevant FY pursuant to the IPT Mandate. Further, to ensure that all Interested Persons Transactions are duly recorded, the finance department shall maintain another list of all Interested Persons to enable it to check the Interested Person Transactions concluded against this list of Interested Persons.
- (b) The Audit Committee shall have overall responsibility for monitoring and approving the Interested Person Transactions and for determining the review procedures, with the authority to delegate such responsibility to individuals within the Company as it deems appropriate.
- (c) If any member of the Audit Committee has an interest in any of the Interested Person Transactions to be reviewed, such member shall abstain from any decision-making in respect of those transactions. The review and approval of those transactions will be undertaken by the remaining members of the Audit Committee.

If, during any reviews by the Audit Committee, it is of the view that the established review procedures are no longer appropriate or inadequate to ensure that the Interested Person Transactions will not be prejudicial to the interests of the Company and its minority Shareholders or any change of circumstances results in the assumptions underlying its opinion being no longer true, the Company will seek a fresh mandate from Shareholders based on new review procedures. All Interested Person Transactions shall be reviewed and approved by at least one (1) member of the Audit Committee prior to entry pending a fresh mandate to be sought from Shareholders. In the event that a member of the Audit Committee is interested in any such Interested Person Transaction, that member will abstain from reviewing that particular transaction.

