

**China Aviation Oil (Singapore) Corporation Ltd.**

Singapore Exchange: C47

Industry: Integrated Oil &amp; Gas

Meeting Date: April 29, 2009

Record Date: April 29, 2009

**Lead Analysts**

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**2009 ANNUAL MEETING**

<b>Proposal</b>	<b>Issue</b>	<b>Board</b>	<b>GL&amp;Co.</b>
1.00	Accounts and Reports	For	For
2.00	Allocation of Profits/Dividends	For	For
3.00	Directors' Fees	For	For
4.00	Elect LIU Fuchun	For	For
5.00	Elect Michael Bennetts	For	For
6.00	Elect WANG Kai Yuen	For	Against
7.00	Elect Timothy Bullock	For	For
8.00	Elect ANG Swee Tian	For	For
9.00	Appointment of Auditor and Authority to Set Fees	For	Abstain
10.00	Authority to Issue Shares w/ or w/o Preemptive Rights	For	For

**NOTE**

Except as noted, S\$1.00 = \$0.6957 (exchange rate as of December 31, 2008)

# Company Profile

## ADDRESS / STOCK

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Quote Symbol: C47  
 Exchange: Singapore Exchange  
 SEDOL: 6425072  
 ISIN: SG1L95897758  
 Benchmark Index: Singapore Straits Times

Industry: Integrated Oil & Gas  
 Employees: N/A

Auditor: KPMG

## COMPANY DESCRIPTION

China Aviation Oil (Singapore) Corporation Ltd. The Group's principal activities consist of trading in aviation oil and petroleum products. Other activities include business travel and tourist agents. The Group's operations are carried out in China and other regions which mainly comprise Singapore, South Korea, Switzerland, United Kingdom and Malaysia. Source: Worldscope

## MARKET INFORMATION / STATISTICS

Currency:	SGD
Price Close (as of 04/09/09):	0.75
52 Week High:	1.98
52 Week Low:	0.48
No. of Shares Outstanding:	723m
Market Capitalization:	517m
Enterprise Value:	122m

## INCOME STATEMENT (LTM)

As of Sep 2008	(millions - SGD except per share data)
Revenue:	7,872
Net Income:	71
EPS:	0.10

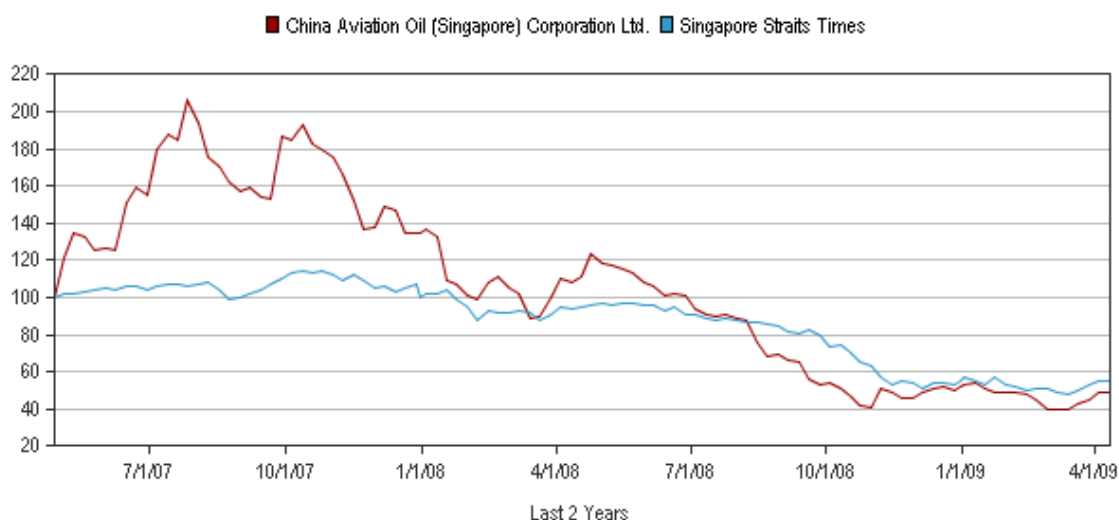
## MARKET PERFORMANCE

1 Year Stock Performance:	-54.01%
3 Year Stock Performance:	-41.80%
5 Year Stock Performance:	-91.42%

## BALANCE SHEET

As of Sep 2008	(millions - SGD)
Total Assets:	1,132.01
Total Liabilities:	736.74
Total Common Equity:	395.27

## INDEXED STOCK PRICE



Source: Thomson Financial and Glass, Lewis & Co., LLC

## Proposal 1.00: Accounts and Reports

**FOR**

This proposal seeks shareholder approval of the Company's financial statements and directors' and auditor's report for the fiscal year ended December 31, 2008.

As a routine matter, Singapore company law requires that shareholders approve the financial statements, directors' report and auditor's report in order for them to be valid.

### **Glass Lewis' Analysis**

We believe that all of the necessary financial statements and reports are present in the Company's annual report. We note that in the opinion of KPMG, the Company's independent auditor, the financial statements have been properly prepared in accordance with the Companies Act and Singapore Financial Reporting Standards.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Proposal 2.00: Allocation of Profits/Dividends

**FOR**

This proposal seeks shareholder approval of the allocation of profits for the fiscal year ended December 31, 2008.

If approved, the Company will distribute a final dividend of S¢2.0 (¢1.4) per share on May 20, 2009 to shareholders of record on May 11, 2009.

<b>In Singapore Cents</b>	<b>FY 2008</b>	<b>FY 2007</b>
Final Dividend	2.0	2.0
Special Dividend	0	5.0
Interim Dividend	0	0
Total Dividend for Year	2.0	7.0
Basic EPS (in US cents)	5.30	23.29
Dividend Payout Ratio	26.3%	20.9%

### **Glass Lewis' Analysis**

With limited exceptions, Glass Lewis will generally support the dividend policy proposed by a company. Here we find that the dividend payout is reasonable and we do not see any cause for concern in terms of the board's process in making this determination.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

This proposal seeks shareholder approval of S\$491,131 (\$341,680) as the aggregate amount of fees to be paid to the Company's directors for the fiscal year ended December 31, 2008.

In Singapore, shareholders may decide only the aggregate amount of fees to be paid to directors as compensation for their services as members of the board. Shareholders do not have the right to vote on executive compensation or the company's compensation policy.

## Glass Lewis' Analysis

Glass Lewis believes that non-executive directors should receive compensation for the time and effort they spend serving on the board and its committees. In particular, director fees should be competitive in order to retain and attract qualified individuals. However, excessive fees represent a financial cost to the Company and threaten to compromise the objectivity and independence of non-executive directors. Therefore, a balance is required. The following is a summary of the directors' fees and our estimate of fees payable to each director:

### Directors' Fees

In S\$	Last Year's Fees		Proposed Fees		Increase Per Director
	Aggregate	Average	Aggregate	Average	
Directors	470,731	52,303	491,131	54,570	4.3%
Notes	The breakdown of fees payable to executives and non-executives was not disclosed by the Company				

We find that the fees paid to directors have been reasonable in the past and are in line with those paid by the Company's peers.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## BOARD OF DIRECTORS

Name	Up	GLC Classification	Committees			Term Start	Years on Board	Attended at least 75% of Meetings
			Audit	Comp	Nom			
Michael J. Bennetts	✓	Affiliated <sup>1</sup>		✓	✓	2007	2	Yes
Timothy Bullock	✓	Affiliated <sup>2</sup>	✓			2008	1	No
MENG Fanqiu		Insider <sup>3</sup>				2006	3	Yes
LIU Fuchun	✓	Independent	✓	✓	C	2006	3	Yes
WANG Kai Yuen	✓	Independent <sup>4</sup>	✓	C	✓	2008	1	Yes
SUN Li		Affiliated <sup>5</sup>				2007	2	Yes
ZHAO Shousen		Affiliated <sup>6</sup>	✓	✓	✓	2006	3	Yes
ANG Swee Tian	✓	Independent	C	✓	✓	2008	1	Yes
ZHANG Zhenqi		Insider <sup>7</sup>				2007	2	Yes
% Independent		33%	60%	60%	60%			

C = Chair

1. Former CEO (until 2008) of BP Eastern Hemisphere (until 2008), an associate of BP Investment Asia Limited, which beneficially owns 20.0% of the Company's outstanding ordinary shares.
2. Executive of BP International Ltd., an associate of BP Investment Asia Limited, which beneficially owns 20.0% of the Company's outstanding ordinary shares.
3. CEO. Former executive of China National Aviation Fuel Group Corporation, an entity that beneficially owns 50.9% of the Company's outstanding ordinary shares.
4. Non-executive chairman. Serves on more than six public company boards.
5. Deputy chairman. President of China National Aviation Fuel Group Corporation, an entity that beneficially owns 50.9% of the Company's outstanding ordinary shares.
6. Chief accountant of China National Aviation Fuel Group Corporation, an entity that beneficially owns 50.9% of the Company's outstanding ordinary shares.
7. Executive director.

Five candidates are up for election as directors. While their terms have not been specified, we note that pursuant to the Singapore laws and regulations, every director should stand for reelection at least once every three years and all directors appointed to the board since last year's annual meeting should submit themselves for election. Directors over the age of 70 are required to seek reelection every year.

As recommended by Singapore's Code of Corporate Governance, we believe that at least one-third of the board should consist of independent directors. In addition, listed companies should have an audit committee consisting solely of non-executive directors, a majority of whom are independent. Listed companies may establish compensation and nominating committees that should be majority independent. The compensation committee should consist solely of non-executive directors, while insiders may serve on the nominating committee.

We believe shareholders should be mindful of the following issues:

China National Aviation Fuel Group Corporation ("CNAFGC"), a state-owned entity, beneficially owns 50.9% of the Company's voting common stock. We suspect that most, if not all, shareholders both understand and accept the nature and the extent of CNAFGC's control over the Company and

the composition of its board. Thus, we decline to make voting recommendations in this report based on strict notions of independence.

We note that director Timothy Bullock attended only 3 of the 6 board meetings held in the last fiscal year. While we typically recommend voting against directors who attend less than 75% of board and committee meetings held, we will exempt directors from this requirement during their first year on the board, with the understanding that they may have prior commitments that preclude them from attending.

As discussed in our report on the Company's 2005 annual meeting held on February 3, 2006, the Company incurred significant losses during 2004 due to speculative oil derivatives trading, which the Company did not report until November 29, 2004. The direct losses from the speculative trading amounted to approximately S\$894 million (\$622.0 million), while the net loss for the fiscal year ended December 31, 2004 totaled approximately S\$865 million (\$601.8 million). This incident led to the suspension in trading of the Company's shares, an investigation by the Commercial Affairs Department (the "CAD") and an investigation by PricewaterhouseCoopers, which was appointed by the Company at the direction of the Singapore Exchange as a special auditor pursuant to the listing rules. PricewaterhouseCoopers found that the losses from the speculative oil derivative trading were due in part to the Company's desire not to disclose losses in 2004, as well as improper risk-management procedures and the failure of the audit committee and the board to fulfill their duties.

In 2003, the Company started oil-securities transactions authorized by CNAF, during which time CHEN Jiulin, former CEO of the Company, signed contracts with multiple banks and made a speculative bid on oil for \$38 per barrel, assuming that the oil price would not rise above such price ("Dissolve Mystery of China Aviation Oil Incident." *People's Daily Online*. December 10, 2004). In October 2004, the price of oil derivatives greatly surpassed the expected price, which resulted in the Company having to pay back the guaranty money to the banks. It became apparent that the Company was facing financial difficulties due to the losses arising from the speculative oil derivative trading. However, Chen Jiulin and several other senior executives of the Company and CNAF manipulated the Company's financial statements to conceal the losses.

In 2005, Chen Jiulin and several other officers of the Company and CNAF were arrested on several charges related to derivative trading, manipulation of financial statements, breach of fiduciary duties, failure to disclose information and defrauding of Deutsche Bank AG ("Deutsche Bank"). In October 2004, CNAF sold the 15% stake it held in the Company to Deutsche Bank. Chen allegedly arranged for the placement of the Company's shares with Deutsche Bank without informing Deutsche Bank of the financial difficulty the Company was facing, falsely telling Deutsche Bank that he was not aware of any "material developments which would adversely affect [the Company's] prospects" ("Chen and Four Other Top CAO Officials Charged." *The Business Times Singapore*. June 10, 2005). Peter Lim, CFO of the Company at the time, and Jia Changbin, chairman of the Company and president of CNAF at the time, were also arrested on similar charges ("China Aviation Oil Losses Investigated." *Associated Press*. December 3, 2004; "Arrest in China Aviation Oil Scandal." *Vietnam Investment Review*. June 13, 2006).

Following the scandals, the Company faced millions of dollars in fines, and several officers of the Company were found guilty of several offenses. In August 2005, CNAF was also fined S\$8 million (\$5.6 million) for the insider trading in connection with the sale of the Company's stake to Deutsche Bank. In February 2006, Peter Lim was sentenced to two years in jail and fined S\$150,000

(\$104,355) for failing to publicly disclose the extent of the Company's losses and misrepresenting several material aspects during the insider trading scandal. In March 2006, Chen was sentenced to four years and three months in jail and fined S\$335,000 (\$233,060) for both derivative trading and insider trading ("Court Imposes Fines on Three Directors of CAO Singapore." *The Wall Street Journal*. March 2, 2006; "Former CEO of China Aviation Oil Sentenced to Four Years, Three Months in Jail." *Associated Press Financial Wire*. March 21, 2006). In March 2006, Jia Changbin was fined S\$250,000 (\$173,925) for his involvement in the insider trading, was expelled from the Communist Party, and was also separately fined S\$150,000 (\$104,355) for failing to disclose the losses arising from the derivative tradings.

Following the series of scandals, the Company was left close to bankrupt, and the entire board of the Company was reshuffled. Additionally, Jia Changbin was forced to resign from CNAF's management in March 2007, and Sun Li, deputy chairman of the Company, was appointed the new president of CNAF.

The scandal has raised government concern regarding state-owned firms' involvement in derivatives trading as well as overseas management ("China's Aviation Oil Supplier Recovers from Losses after Boss's Malpractice." *China View*. March 23, 2008). China's commission on state-owned assets, the State-owned Assets Supervision and Administration Commission ("SASAC") has delivered an order that state firms must review and provide information in the form of a written report on company derivatives trading and positions. The SASAC has also requested banks to disclose information on state-owned clients' derivatives trading. It has also stated that a number of state-owned firms remain heavily involved in risky financial derivatives ("China Orders State-owned Firms to Review Derivatives." *Reuters*. March 24, 2009).

As discussed in our previous reports, we believe the Company's board and executive officers during the period of the speculative oil trading cover-up violated their fiduciary duties to shareholders. We believe that there was an egregious lack of oversight by the board, the Company and the Group during the period. We are also concerned about the Company's failure to properly disclose its financial status to shareholders.

Previously, we had refrained from making voting recommendation based on the aforementioned issues, as all directors that served on that board during the period at issue have resigned. Furthermore, we granted the new board the benefit of the doubt believing that it, in light of one of the largest corporate scandals in Singapore history, would implement measures to protect shareholder value.

Last year, however, we found continuing cause for significant shareholder concern regarding the Company's transparency, disclosure and overall corporate governance practices, despite the Company's effort to improve them. We note that although the Company considered director LEE Suet Fern, the former chairman of the audit committee, independent, she served as the senior director of a law firm that provides legal services to the Company. Because such relationships potentially create conflicts for directors, who may be forced to weigh their own interests in relation to those of shareholders, we considered director Lee an affiliated non-independent director. We recommended last year that shareholders hold both her and LIM Jit Poh, the chairman of the Company, responsible for failing to take appropriate steps to protect shareholder interests.

Subsequently, both Lim and Lee resigned from the board and WANG Kai Yuen and ANG Swee Tian were appointed to chairman of the board and chairman of the audit committee, respectively. While

the change in chairmanship of the audit committee and the board is a positive step toward better corporate governance at the Company, we note continuing issues surrounding the Company's disclosure and corporate governance practices. In particular, the Securities Association of Singapore ("SIAS") noted director Lee Suet Fern's letter of resignation as a worrying aspect of the Company's corporate governance structure. In the letter, Lee refers to the Company's problematic approach to information flow and management of decision-making, review and oversight, and its negative effects on the discharge of her duty as an independent director (Kelly, Rachel. "SIAS Concerned Over Resignation of CAO's Independent Director." *Channel NewsAsia*. April 24, 2008).

The Company has responded directly to the charges, stating that it is committed to enhancing its corporate governance standards, and has implemented each of the recommendations of the Corporate Governance Assessment Committee, established after the 2005 incident during the restructuring of the Company. It also reviewed, along with the assistance of external consultants, each of the charges, but concluded that the Company is, in fact, in compliance with the current regulatory standards of Singapore.

The Company has also repeatedly failed to disclose the details of the fees paid to its auditors. Substantial non-audit-related fees may compromise the objectivity of the accountants conducting the audit. We believe it is crucial that auditors are not beholden to management as a result of compensation received for non-audit work. In our opinion, the Company's failure to disclose the details of the compensation paid to its auditor prevents shareholders from making a meaningful review of audit practices at the Company.

We also note that according to its 2008 annual report, the Company has resumed fuel hedging and trading activities.

While the Company's governance and disclosure practices continue to be of extreme concern, we note that the chairman of the board and the audit committee are both new to the board and are independent. Therefore we believe that shareholders should give the board the benefit of the doubt and refrain from making voting decisions on this basis at this time. We will closely monitor the Company's practices going forward.

We recommend voting against the following nominee up for election this year based on the following issue:

Nominee **WANG Kai Yuen** serves on a total of more than six public company boards. We believe that the time commitment required by this number of board memberships may preclude this nominee from fulfilling his responsibilities to this Company's shareholders. Considering the aforementioned troubles at the Company, we believe it imperative for the chairman of the board to commit the necessary time and attention to this company so as to ensure protection of shareholder value and prevent a recurrence of oversight failure.

We do not believe there are substantial issues for shareholder concern as to any other nominee.

Accordingly, we recommend that shareholders vote:

**AGAINST:** WANG Kai Yuen

**FOR:** All other nominees

## Proposal 5.00: Elect Michael Bennetts

FOR

Please refer to the analysis in Proposal 4.

## Proposal 6.00: Elect WANG Kai Yuen

**AGAINST**

Please refer to the analysis in Proposal 4.

## Proposal 7.00: Elect Timothy Bullock

FOR

Please refer to the analysis in Proposal 4.

## Proposal 8.00: Elect ANG Swee Tian

FOR

Please refer to the analysis in Proposal 4.

## Proposal 9.00: Appointment of Auditor and Authority to Set Fees

**ABSTAIN**

This proposal seeks shareholder approval to ratify the appointment of KPMG as the Company's independent auditor and to authorize the board to set the auditor's fees for the next fiscal year.

During the last fiscal year, the Company paid KPMG non-audit fees of S\$133,000 (\$92,528). The audit fees paid to the auditor were not disclosed by the Company.

### Glass Lewis' Analysis

We will generally support management's recommendation regarding the selection of the Company's auditor and will grant the board the authority to set the auditor's fees, except in cases where we believe the independence of the returning auditor or the integrity of the audit is compromised.

In this case, we note that the Company has repeatedly failed to disclose the details of the fees paid to its auditors. Substantial non-audit fees may compromise the objectivity of the accountants conducting the audit. When management and auditors enter into significant financial relationships unrelated to the audit, the independence of the auditor and the integrity of the Company's financial statements may be compromised. We believe it is crucial that auditors are not beholden to management as a result of compensation received for non-audit work.

Therefore, the Company's failure to disclose the details of the compensation paid to its auditor for consecutive years prevents shareholders from making a meaningful review of audit practices at the Company. As such, we do not believe that shareholders should give their consent to this proposal without sufficient information to make an informed judgment. In addition, we believe the chair of the audit committee should be held accountable for failing to disclose the details regarding fees paid to the auditor.

Accordingly, we recommend that shareholders **ABSTAIN** from voting on this proposal.

## Proposal 10.00: Authority to Issue Shares w/ or w/o Preemptive Rights

**FOR**

This proposal seeks shareholder approval to authorize the Company to issue shares and/or convertible debt instruments.

Pursuant to this proposal, the board may issue securities at its discretion provided that: (i) the aggregate number of shares to be issued does not exceed 50% of the issued shares in the capital of the Company; and (ii) the aggregate number of shares to be issued other than on a pro rata basis to existing shareholders does not exceed 20% of the issued shares in the capital of the Company.

If approved, this authority will expire at either: (i) the conclusion of the Company's next annual general meeting; or (ii) the date by which the next annual general meeting of the Company is required by law to be held, whichever comes earlier.

### **Glass Lewis' Analysis**

We believe it is in the best interests of shareholders to authorize the board to issue additional shares. The additional shares would provide the Company with the flexibility to finance operations and future business opportunities.

We note that the number of shares to be issued shall not exceed 50% of the issued shares in the capital of the Company (20% when issued without preemptive rights), and the authority will expire at the Company's next general meeting of shareholders. We find the terms of the proposal to be reasonable and within the bounds of Singapore's corporate law.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

## Disclosure

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