**28 APRIL 2011**

**FORTUNE OIL PLC**
**("Fortune Oil", "the Company" or "the Group")**

**Annual Financial Report Announcement - Record Profits and Maiden Dividend**

**Fortune Oil (LSE: FTO.L) is a company focusing on oil, natural gas and resource supply operations and investments primarily in China. Fortune Oil has a Premium Listing, is quoted on the main market of the London Stock Exchange and has its headquarters in Hong Kong. Fortune Oil today reports its results for the financial year ending 31 December 2010.**

## FINANCIAL HIGHLIGHTS

- Revenues including share of jointly controlled entities increased by 40% to £567 million (2009: £404 million).
- Operating profit increased by 28% to £24.6 million (2009: £19.3 million).
- Profit attributable to equity shareholders up 48% to £13.1 million (2009: £8.8 million).
- Earnings per share of 0.69 pence (2009: 0.47 pence) representing an increase of 46%.
- Maiden dividend payment of 0.13 pence per share to be paid out on 24 June 2011.
- Gas distribution operating profit increased by 23% to £10.8 million (2009: £8.8 million).
- Fortune Oil's share in Bluesky's net profit more than doubled to £8.8 million (2009: £4.2 million).
- Net cash position at 31 December 2010 strong at £28.9 million (2009: £7.2 million). New loan facility of US$180 million (£112 million) signed on 1 April 2011.

## OPERATIONAL HIGHLIGHTS

- Fortune Oil achieved record profits across all key business segments.
- Gas sales increased by 21% to 581 million cubic metres (2009: 482 million).
- Bluesky sales volumes increased by 10% to 2.3 million tonnes (2009: 2.1 million tonnes) due to escalation in domestic travel demand.
- Post year end, obtained approval from experts, including government officials, to deploy the LNG dual fuel technology to convert ship diesel engines to LNG and develop a network of LNG refuelling stations along the Yangtze River.
- Post year end, exclusive agreement to supply natural gas to public transit buses in Liaoning Province and to a ceramics industrial park in Jianping County, Liaoning Province.
- First gas sales agreement signed for Liulin coal bed methane (CBM) block commencing on 1 July 2011.

## OUTLOOK

- The Chinese Government's 12th Five Year Plan supports Fortune Oil's strategy:
  - Expansion of the natural gas market targeted to increase from 3.7% in 2009 to 8% by 2015.
  - 45 new airports to be built, creating a total of 220 with the aim of reducing congestion and facilitating more domestic air travel
- Supplying LNG to public transit buses, industrial parks and Yangtze River ships in line with The Five Year Plan, creating LNG roll-out opportunities.
- The Liulin CBM Overall Development Plan application to the National Development and Reform Commission on schedule.
- Acquisition of 35% stake (with an option to increase to 50%) in Armenian iron ore mines announced and strategic alliance formed with seven leading Chinese and international partners.

Mr. Qian Benyuan, Chairman of Fortune Oil, commented:

***"It has been a record year for Fortune Oil with stronger performance across all key performance indicators. Within the energy division natural gas remains the growth engine of the business as we seek to produce and supply natural gas as a reliable source of affordable, clean and safe energy for the growing demand in China. Our new Resources division is an exciting new venture for Fortune Oil as we focus on territories in close proximity to China to acquire resource assets and work with strategic partners to develop these.***

***"We are delighted to be able to declare a dividend, for the first time in the Company's history. This not only reflects a strong performance, but also demonstrates our confidence in our prospects for further growth."***

**ENQUIRIES:**


**Fortune Oil PLC**

| | |
|---|---|
| Tee Kiam Poon, Chief Executive | Tel: 00 852 2583 3125 |
| Premal Shah, Chief Financial Officer | Tel: 00 852 2583 3120 |

**Pelham Bell Pottinger**

| | |
|---|---|
| Archie Berens | Tel: 020 7861 3112 |
| Zoe Sanders | Tel: 020 7861 3887 |

## FORTUNE OIL PLC

## ANNUAL FINANCIAL REPORT ANNOUNCEMENT 2010

In accordance with the Disclosure and Transparency Rules, we set out below the extracts from the 2010 Annual Report and Accounts in unedited full text. The Annual Report and Accounts is available on the Company's website www.fortune-oil.com and will be posted to shareholders who have elected to receive a hard copy of this document no later than 16 May 2011.

## CHAIRMAN'S STATEMENT

I am pleased to report that Fortune Oil has achieved record profits for the year ended 31 December 2010. This has been a truly outstanding performance.

We do however live in both exciting and challenging times for the energy industry. Global energy demand is reaching new highs driven by the growth of the emerging economies and particularly by that of China. The recent crises in the Middle East and the energy problems in Japan following the tsunami disaster have acted as clear reminders of the importance of ensuring safe and reliable energy supplies. At the same time there is the complex challenge of addressing the impact of carbon emissions from consuming fossil fuels and the associated consequences of climate change. Nuclear energy is viewed as a potential solution to providing power without creating carbon emissions but the recent problems in Japan have already caused many countries, including China, to review their plans for nuclear energy. This can only result in nuclear power becoming more expensive as further safeguards are put in place and strengthen the need for alternative clean and safe energy sources.

Natural gas has a key role to play in addressing these challenges. Whilst natural gas resources are widely distributed around the world, China has significant indigenous resources, including large reserves of untapped unconventional reserves such as coal bed methane and shale gas. Relative to other energy sources natural gas is not only affordable, but it also has a solid safety track record. Crucially, it is a clean low carbon source of energy that will play a pivotal role in reducing pollution and improving living standards throughout China's cities.

These factors together underpin Fortune Oil's strategy of producing and supplying natural gas as a reliable source of affordable, clean and safe energy to meet China's rapidly expanding needs.

It has therefore given me great pleasure to report on the exciting and important investments we have made over the past year that go to the core of addressing the challenge of providing clean, safe and reliable energy to our customers. These have ranged from the city gas project in Dashiqiao to the Everthriving liquified natural gas (LNG) fuelled shipping project on the Yangtze River.

Dashiqiao is one of several new projects where we are investing in natural gas pipelines, distribution and gas processing facilities to supply natural gas to the city and the local industries as the Chinese government seeks to replace the coal-based plants which create local air quality issues in many of our cities today. This not only improves the local air quality but also reduces the carbon emissions footprint of our customers.

The Yangtze River carries the largest cargo movements in the world on ships which create significant local air quality issues from the diesel and fuel oil they consume. Everthriving has developed “dual fuel” technology which will allow the engines on these existing ships to be converted quickly and safely to use LNG as a fuel and significantly reduce the emissions from these ships. Fortune Oil will supply the LNG fuel for this at refuelling stations along the Yangtze River. Everthriving has converted the first ship to “dual-fuel” technology and this has successfully undergone river trials and passed expert appraisals, as announced on the 12 April 2011 in the Great Hall of the People, Beijing. The success of Fortune Oil in this project is, in many ways, testament to Mdm Li Ching and her skills and experience in pulling together all the key partners and her strong relationships with the key government organisations in China.

China’s needs are not only limited to energy. Its increasing affluence across a broader number of its citizens is creating huge demand for all types of resources. It is this demand that underpins Fortune Oil’s new corporate strategy announced in November 2010- to create two distinct divisions of the Group: Energy and Resources.

The newly formed Resources Group will focus on territories with close proximity to China. It will seek to acquire controlling interests of scalable, in-production or near-production resource assets and form strategic partnerships to develop such assets. Since the year end, Fortune Oil has announced its first resources acquisition, with the investment of US$24 million in three Armenian iron ore mines.

Fortune Oil has also formed a strategic partnership with seven leading Chinese and international organisations. The partnership brings a range of engineering, construction, design, technical study and due diligence skills and services to support the Resources Group.

Given the enormous opportunity and our commitment to grow the Group we have appointed new independent directors to the Fortune Oil Board and other personnel to the senior management team as we look to strengthen corporate governance and broaden the expertise within the Group. As part of this process I’m pleased to welcome to the Board Mr Mao Tong and Mr Lin Xizhong as Non-Executive Directors of the Company.

Mr Mao Tong is the Managing Partner of the Hong Kong office of Bryan Cave LLP, a US commercial law firm. Mr Mao has 23 years’ experience of advising Fortune 100 companies, major Chinese state and private enterprises, private equity funds, technology companies and Chinese banks and financial institutions.

Mr Lin Xizhong was a director of China Minmetals Corporation. He has over 30 years’ experience of working for state owned mining and natural resources businesses in China. He is an experienced financier, having served as Vice Chairman of Hong Kong First Pacific Bank.

We strengthened the management team with the appointments of Mr Premal Shah as Chief Financial Officer and Dr Michael Jones as Technical and Business Development Director.

Our clear objective as a Board is to sustain the success of the Group and to ensure we continue the development of a successful and enduring company, well positioned to take advantage of the changing energy landscape.

It is for this reason that we authorised Fortune Oil's return to the bank financing market in April 2011 to agree a new US$180 million (£112 million) facility, which was only a year after agreeing our Standard Chartered Bank US$80 million loan facility, so as to maximise our borrowing capacity and lock in low cost financing at current levels. We believe that central banks across Asia-Pacific and particularly China will begin to aggressively tighten liquidity so we considered this opportune timing.

The record results in 2010 have been made possible as a result of the professionalism and sheer determination of Fortune Oil's staff and their desire to ensure the Group's continued success. This spirit is clearly seen within the leadership team and to which I welcome our new CEO Tee Kiam Poon. There is still so much to achieve in Fortune Oil and I look forward to continuing to work with them as Fortune Oil continues on its growth trajectory.

Finally, I would like to thank our shareholders for their continued support and look forward to continuing to lead the Board in such interesting and exciting times for the energy industry. We operate in a rapidly changing world full of challenges and opportunities and I believe Fortune Oil is well positioned to thrive and grow by providing clean, reliable and affordable energy safely to our existing and new customers across China.

# CHIEF EXECUTIVE'S REVIEW

**Overview**
It is a great privilege to give my first annual review as the Chief Executive Officer of Fortune Oil in what has been an outstanding year for the Group. We achieved record profits, supplied more fuel and natural gas to more customers across China than ever before, both reliably and, most importantly, safely.

Higher volumes principally drove a 40% increase in revenues to £567 million in 2010 from £404 million in 2009. Profit after taxation attributable to shareholders of the Group for the year amounted to £13.1 million, an increase of 48% compared to £8.8 million in 2009. Earnings per share for the year increased significantly 46% to 0.69 pence compared to 0.47 pence in 2009. Profit growth in 2010 was driven by a very strong contribution from our Bluesky aviation business, by increased volume and improved margins in the natural gas business and one-off gains of £2.0 million post tax from divestments (£0.9 million in 2009). The net cash position remained strong at £28.9 million as at 31 December 2010.

During the year we invested £20.5 million, of which £15.4 million was for capex and £5.1 million was in respect of acquisitions mainly in our gas businesses as we continue to strive to build a company which provides clean, secure, safe and affordable energy to our customers in China. The recently announced Chinese Government 12th Five Year Plan continues to support the rapid expansion of the natural gas market in China which, despite the rapid growth in recent years, still only represented 3.7% of China's primary energy consumption in 2009, compared to 10.8% in the Asia Pacific region and 23.8% globally. The Chinese Government's target is to increase natural gas to 8% of the primary energy consumption by 2015, equivalent to over 200 billion cubic meters of natural gas per annum.

To this end, Fortune Oil invested further in our upstream Liulin Coal Bed methane block, gas processing facilities, spur pipelines and distribution networks as well as in creating new downstream CNG and LNG refuelling markets. We continue our efforts to promote a greater role for natural gas as a fuel for the transportation sector and we see this as one of the key growth drivers of the natural gas business in the future. In particular, we started two exciting new projects converting ships and buses powered with diesel to use LNG, to which Fortune Oil will have the rights to supply the LNG fuel.

The downstream natural gas markets in which we operate are very competitive. Our challenge is to maintain our focus on continuous improvement, so that we continue to drive the existing businesses forward. It is critical we drive efficiencies through the businesses and ensure that acquisitions add strength in our most valuable and attractive markets. Our performance starts and ends with the actions of individuals and I want to thank our employees for the commitment they showed in 2010. Our performance is a result of their determination and skills and we continue to rely on their specialist skills and technical expertise to ensure the continued success of our Company.

**Key Performance Indicators**
We continue to use the six principle Key Performance indicators (KPIs) that were adopted in 2004. We feel these continue to be valuable in assessing how well the Group has been performing against its strategic aims. In 2010 we met or exceeded five out of our six KPIs, further details of which can be found in the Annual Report.

**New Term Loan**
On 1 April 2011 Fortune Oil PRC Holdings, the Hong Kong holding company for the Group's China operations, signed a new loan facility agreement with various financial institutions arranged by Morgan Stanley. The facility size is US$180 million (£112 million) with a term of three years and a margin of 2.6% over LIBOR. The facility will be used in part to prepay the US$80 million loan facility arranged by Standard Chartered Bank in April 2010. The balance of US$100 million will be applied towards acquiring assets in China including natural gas, coal bed methane, resources and for general working capital requirements of the Fortune Oil Group.

**Oil Division**
Bluesky aviation achieved a record performance in 2010, with sales volume increasing by 10% to 2.3 million tonnes and joint venture revenues increasing to RMB 11.6 billion (£1,118 million) compared to RMB 8.7 billion (£814 million) in 2009. Net profit increased to RMB 375 million (£36.1 million) with the Fortune Oil share £8.8 million. This strong performance has been driven by the escalation in domestic air travel in China and made possible by improved procurement strategies for jet fuel with the local refineries. This has been a tremendous result and the Group continues to invest in new refuelling infrastructure to support the ongoing growth in domestic air travel.

Crude oil deliveries through Maoming Single Point Mooring (SPM) increased to 9.7 million tonnes. Net profit was RMB 47 million (£4.5 million) with the Fortune Oil share RMB 19 million (£1.8 million), compared to RMB 20 million (£1.8 million) in 2009. SPM underwent increased maintenance and safety checks in 2010 and this had an adverse affect on availability and thus net profit.

Utilisation of the West Zhuhai Oil Products terminal by Petrochina has increased significantly. Throughput in 2010 increased to 2.5 million tonnes and the net profit increased to RMB 34 million (£3.3 million). The Fortune Oil share of net profit increased to £1.2 million. The terminal is being expanded with the construction of five new tanks with capacity of 220,000 cubic meters, which will bring our total capacity to 457,000 cubic meters.

Our independent Trading business continued to expand in 2010 with the import and export of non-regulated oil products and petrochemicals on a low risk agency or back to back basis. We traded 286,000 tonnes of products in 2010 compared to 249,000 in 2009, an increase of 15% with a total turnover of RMB 1.8 billion (£170.5 million) compared to RMB 1.1 billion (£107.1 million) in 2009. The trading business made an earnings contribution of RMB 10 million (£1.0 million) in 2010 compared to RMB 11 million (£1.0 million) in 2009.

**Gas Division**
The natural gas division continued to achieve robust profit growth and our gas sales volumes reached 581 million cubic meters in 2010, a new record.

In 2010 the Gas division operating profit increased by 23% to £10.8 million from £8.8 million in 2009, with the Fortune Oil share increasing to £6.1 million. We have seen strong growth in all our gas operations and we now have over 174,000 customers with the addition of over 32,000 new customers in 2010. To get the gas to our customers we continued to expand our pipeline network which now spans 1080 km in 2010 compared to 941 km in 2009.

The development of a vertically integrated gas company remains on track. Diversification along the various natural gas value chains and an increase in the number of projects are rapidly transforming Fortune Gas from being centred on a single business into a sizable, nationwide, multi business enterprise with a focus on environmentally friendly ventures in the gas sector.

In line with this strategy, Fortune Oil has announced completion of four major transactions. Firstly, Fortune Gas invested in the Liaoning Zhenrun Natural Gas Co., which has the rights to develop the spur pipeline and gas distribution in the Dashiqiao, Liaoning Province. As part of this transaction, Fortune Gas secured gas supply from Petrochina and the spur pipeline, which is under construction, is expected to commence operations in 2011. This has the potential to supply up to 0.3 billion cubic meters of gas per annum by 2015 to Dashiqiao and surrounding areas, which are home to a large magnesium processing industry.

Secondly, since the year end Fortune Gas also invested in the Liaoning Jianrun Natural Gas Co which has the rights to develop the spur pipeline and gas distribution in the Jianping area. Fortune Gas has secured gas supply from Petrochina and the spur pipeline is expected to commence operations in 2012 and has the potential to supply up to 0.2 billion cubic meters of gas per annum by 2015 to Jianping, home to a major ceramics industry.

Thirdly, as part of our strategy to develop downstream natural gas refuelling markets we forged a new joint venture with Everthriving Investment Group which has exclusive rights to proprietary diesel engine — LNG “dual fuel” technology. Fortune Oil plans to deploy this technology on the Yangtze River cargo ships, together with the development of network of LNG refuelling stations. This will integrate Fortune Oil along the LNG supply chain to ensure maximum value is captured. Each ship can consume up to 500,000 cubic meters per annum of natural gas and the initial phase of the project has the potential to convert around 500 ships.

Finally, also in the vehicle refuelling market, we announced since the year end the formation of a new joint venture in Shenyang to supply LNG up to 6,000 public buses in Liaoning province exclusively using the LNG stations operated by Fortune Liaoning. This is the first provincial level pilot project approved by the Ministry of National Transportation and has also received strong support from the Liaoning Provincial government. This provides Fortune Oil with the platform to expand the use of LNG across China’s vast transportation industry.

Fortune Oil is in the process of restructuring and rationalising its Natural Gas business to drive financial performance and to increase shareholder value. As part of this process we sold our indirect 51% equity interest in Henan Fortune Green Energy Development Co Ltd to Henan Green Energy Group Holding Company Ltd, which owned the remaining 49% equity interest. The funds realised in the amount of RMB 250 million (£24.2 million), which included a repayment of shareholder’s loan of RMB 96 million (£9.3 million), will be utilised for the further development of the natural gas business.

**Coal Bed Methane**

Commercialisation of China’s undeveloped reserves of unconventional gas, principally gas trapped in coal seams, coal bed methane (CBM), is a cornerstone of China’s long term gas supply forecasts as China plans to significantly expand its domestic supplies to meet demand. Commercialisation of the Liulin CBM block is progressing well and the Production Sharing Contract (PSC) was extended a further two years until March 2012, the first gas sales agreement has been signed, and the Company is on track towards Overall Development Plan (ODP) approval.

In May 2010 the Ministry of Land & Resources registered our Reserve Certification of 5.3 billion cubic meters (bcm) of gas in place, of which 2.7 bcm is currently categorised as economically recoverable for 72 $km^2$ of the northern section of the Liulin block.

Two lateral wells have been successfully drilled by Fortune Liulin Gas Company Limited (FLG) and, under the State Pilot Project, our Chinese government partner, China United Coal Bed Methane Corporation Limited (CUCBM), has successfully drilled two horizontal wells. A further 16 wells are in test production. The two horizontal wells have shown very promising results with a gas flow of over 11,000 cubic meters per day continuously with a peak gas flow rate once reaching 16,000 cubic meters per day.

The new wells will enable further reserve certification for additional coal seams across the block and support the development of the ODP.

A further indicator of Liulin's value was demonstrated by the increased investment during the year by our strategic partner in Liulin, Dart Energy Limited (formally Arrow Energy International), as they exercised their option to increase their equity interest in FLG up to 45% in 2010 demonstrating their confidence in the progress we are making towards commercialisation.

Upon exercise of option 1b within 6 months from 30 June 2011 or a date when an Overall Development Program has been approved, Fortune Oil will lose control of FLG.

**New Corporate Strategy**

In November 2010 we announced an updated corporate strategy to accelerate the Group's growth and enhance shareholder value. Part of that strategy is to pursue overseas investment opportunities to capitalise on the demand for energy and resources in China. We also announced our investment to develop iron ore resources in Armenia and have progressed a strategic alliance to bring international and Chinese expertise to support us. This is an exciting new development for Fortune Oil which draws on our relationships and connectivity in China. Fortune Oil has always operated at the frontiers of its industry, from Maoming SPM, Bluesky aviation, and now to LNG fuelling of buses and ships. We expect that Fortune Oil's experience, skills, capability, and access to markets will enable us to maximise the value from the commercialisation of these overseas resources.

Our strategy for the Gas and Oil Divisions remains unchanged as we continue to pursue further growth opportunities and efficiency savings. In this regard we will look at further opportunities to make acquisitions in upstream and downstream gas markets concentrating on adding new markets and businesses in provinces where we are already active and in to new regions as the major gas pipeline network develops. In the oil sector we continue to evaluate acquisition opportunities that provide medium growth with a relatively low risk profile, although we do not envisage major acquisition activity in the near term.

**Dividend**

The Board, recognising the stage of development achieved by the Group, the strength of its cash flows, and the level of net profit attributable to shareholders for the year ended 31 December 2010, has determined that it would be appropriate to commence paying a dividend to shareholders. The Board has determined that a pay-out rate of approximately 20% of profit after tax attributable to shareholders is appropriate. For 2010 this equates to 0.13p per share. Payment of the dividend will be made on 24 June 2011 to shareholders on the register on 20 May 2011. The Board considers that it is appropriate given the earnings profile that one dividend payment will be made per year.

**Business Outlook for 2011**

I am very excited about the growth prospects for Fortune Oil and how we can continue to strengthen our position in what has now become the world's second largest economy, China. We anticipate continued strong growth in the Group's natural gas businesses and expect good results from the new environmentally friendly transportation businesses, which will open up a new way for the Group's long term development. As an integrated gas business we are well placed to exploit the phenomenal growth in this sector and are at the leading edge of developing new downstream markets for LNG.

The new Resources division presents significant new opportunities for Fortune Oil and we now have a strong alliance able to bring the skills needed to ensure our commercial success. We will be bringing in additional line management to ensure we are able to efficiently leverage these opportunities.

This is my first year as your Chief Executive and I am pleased to have been given this opportunity to manage a group with such strong potential and so many exciting developments. Fortune Oil is uniquely placed with a solid, well positioned set of assets, established local relationships, and a dedicated and hard working team of employees, which we have strengthened with the appointments of Mr Premal Shah as Chief Financial Officer and Dr Michael Jones as Technical and Business Development Director as part of the senior management team.

Following the record profits achieved this year I would like again to personally thank all our staff for all their hard work and dedication to our success and to our shareholders for their continued support. Fortune Oil operates in one of the most dynamic markets in the world, full of challenges and opportunities. I'm confident that with such a strong and determined company we will thrive in this environment and continue to grow the Company and enhance shareholder value for many years to come.

**TEE Kiam Poon**
Chief Executive
27 April 2011

# FINANCIAL REVIEW

## Revenue and Expenditure

Revenues including the Group's share of jointly controlled entities increased by 40% to £567 million (RMB 5,891 million) in 2010 from £404 million (RMB 4,326 million) in 2009. Group revenue excluding jointly controlled entities increased substantially in 2010 to £275.8 million (RMB 2,865 million) from £192.0 million (RMB 2,057 million) in 2009 due to substantial growth in natural gas sales and trading activities. Before the gain on disposal of interests in subsidiaries of £3.4 million (the gain on deemed disposal of interests in subsidiaries in 2009: £0.9 million), the operating profit was £24.6 million in 2010, compared with £19.3 million in 2009, an increase of 28%. This increase is mainly due to continuing growth in the natural gas business and the aviation refuelling business.

In addition the Group recorded a further £3.4 million through equity reserves as a further gain in the year on deemed disposal of a further interest in a subsidiary.

The after tax net profit attributable to equity shareholders was £13.1 million (RMB 136 million), an increase of 48% compared to £8.8 million (RMB 95 million) in 2009. Earnings per share increased significantly to 0.69 pence compared with 0.47 pence in 2009. Administrative expenses increased by 31% to £12.5 million in 2010. Major reasons for the increase include professional fees for acquisitions and potential acquisitions, higher staff related costs associated with expansion and recruitment of senior management during the year, and exchange losses due to depreciation of the pound sterling.

## Capital expenditure and acquisitions

Capital expenditure and acquisitions totalled £20.5 million (2009: £23.4 million), of which £15.4 million was capex and £5.1 million was in respect of an acquisition. This mainly consisted of the expansion of gas pipeline networks, development costs in Liulin CBM block and acquisition of two new subsidiaries, Liaoning Fortune LNG Company Limited and Beijing Everthriving Energy Technology Company Limited.

## Financial Position

The net assets of the Group at 31 December 2010 were £166.3 million (RMB 1,687 million), compared with £134.2 million (RMB 1,473 million) in 2009. The cash position remained strong and net cash as at 31 December 2010 was £28.9 million compared with £7.2 million as at 31 December 2009. The cash balance exceeded the outstanding Group bank loan balances. Together with the positive cashflow from operations, the Group envisages no difficulties in meeting both current loan repayment obligations and investment commitments.

## Financial Costs and Tax

Finance expenses for the Group were £3.0 million in 2010, compared to £2.5 million in 2009. Group borrowings at 31 December 2010 totalled £71.5 million compared to £48.5 million at the end of 2009. The increase was mainly due to the net effect of drawdown and repayment of syndicated bank loans by the Group of £23.0 million (US$35.5 million) in 2010. The net gearing ratio (after deduction of cash) for the Group remained negative as of 31 December for both 2009 and 2010.

The Group's tax charge in 2010 was £6.5 million (2009: £2.8 million) representing an effective tax rate of 25.0% compared with 15.4% in 2009. Since 2008 the PRC corporate tax rate has been unified for both domestic and foreign companies at 25%, being previously 15% for foreign enterprises and 33% for domestic corporations. The overall effective tax rate for Fortune Oil has gradually increased as most of the existing tax privileges fall away. From 2008, dividends distributed overseas by foreign invested enterprises in China were subject to tax. The tax rate is 10% for Bluesky dividends and 5% for those from Maoming Single Point Mooring, and West Zhuhai Terminal.

**Foreign Exchange**

The revenues and expenses of the Group are primarily denominated in China's renminbi (RMB). Some expenses are denominated in pound sterling (£) and in Hong Kong dollar (HK$), which is pegged to the US dollar (US$). On average from 2009 to 2010, the RMB appreciated against the US$ by 1.4% and the pound sterling depreciated by 1.6% against the US$, hence there was an overall 3.0% depreciation of the pound sterling against the RMB. This currency movement has had the effect of increasing our profits as measured in pound sterling.

The assets and liabilities of the Group are also primarily denominated in RMB, although a small proportion are denominated in pound sterling and HK$. In line with the average annual rates, the closing pound sterling exchange rate depreciated against the RMB by 7.6%.

The Company does not have a policy to hedge currency risk and therefore any changes in the RMB/£ exchange rate are likely to affect the Group's results as denominated in pound sterling.

**Capital Structure**

Most of the Group's investments and expenses take place in the PRC and are held through Fortune Oil PRC Holdings Limited, a 100%-owned Hong Kong based subsidiary of the Company. To facilitate inter company restructuring most of the investments in China are held through subsidiary Hong Kong registered companies. The Company's UK operations consist only of local representation as a direct expense to the Company.

**Refinancing**

On 4 April 2011, Fortune Oil PRC Holdings Limited signed a US$180 million (£112 million) loan agreement. The facility is denominated in US$ with a term of three years and a margin of 2.6% over LlBOR. The facility is guaranteed by Fortune Oil PLC and secured by share charges over its various Hong Kong subsidiaries.

The purpose of this loan is to maximise the borrowing capacity and to lock in low-cost financing at current levels before central banks across Asia-Pacific, particularly China, begin to aggressively tighten liquidity. The US$180 million of new financing will used to acquire natural gas and resource companies that are struggling to access bank financing as China tightens its monetary policy to combat inflation.

**Dividend**

Due to the financial performance of the Group and its balance sheet strength, the directors recommend a final dividend of 0.13p per ordinary share to be paid on 24 June 2011 to ordinary shareholders on the register on 20 May 2011.

**Directors' Statement**

The Directors of Fortune Oil confirm that the financial statements in this report to shareholders are true and fair and the directors' report includes a fair review of the development and performance of the business, its position and a description of the principal risks and uncertainties faced.

# FORTUNE OIL PLC

## Annual Financial Report Announcement

## Consolidated Income Statement for the Year Ended 31 December 2010

| Amount in £'000 | Notes | **2010** | 2009 |
|---|---|---|---|
| Revenue including share of jointly controlled entities | 2 | **566,886** | 403,745 |
| Share of revenue of jointly controlled entities | 2 | **(291,132)** | (211,714) |
| **Group revenue** | 2 | **275,754** | 192,031 |
| Cost of sales | | **(236,817)** | (157,013) |
| **Gross profit** | | **38,937** | 35,018 |
| Distribution expenses | | **(13,007)** | (12,000) |
| Administrative expenses | | **(12,453)** | (9,522) |
| Share of results of jointly controlled entities | | **11,171** | 5,807 |
| **Profit from operations** | 2 | **24,648** | 19,303 |
| Other gains | 8 | **3,404** | 865 |
| Finance costs | | **(2,954)** | (2,532) |
| Investment revenue | | **970** | 421 |
| **Profit before tax** | | **26,068** | 18,057 |
| Income tax charge | 3 | **(6,526)** | (2,784) |
| **Profit for the year** | | **19,542** | 15,273 |
| **Attributable to:** | | | |
| Owners of the parent | | **13,083** | 8,842 |
| Non-controlling interests | | **6,459** | 6,431 |
| | | **19,542** | 15,273 |
| **Earnings per share** | | | |
| Basic | 5 | **0.69** | 0.47 |
| Diluted | 5 | **0.69** | 0.47 |

All results shown are from continuing operations.

# FORTUNE OIL PLC

## Annual Financial Report Announcement

## Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2010

| Amount in £'000 | Notes | **2010** | 2009 |
|---|---|---|---|
| **Profit for the year** | | **19,542** | 15,273 |
| Exchange differences arising on translation of foreign operations | | **14,891** | (12,167) |
| Loss on cash flow hedges arising during the year | | **(564)** | - |
| Other comprehensive income for the year | | **14,327** | (12,167) |
| **Total comprehensive income for the year** | | **33,869** | 3,106 |
| **Attributable to:** | | | |
| Owners of the parent | | **23,368** | 1,268 |
| Non-controlling interests | | **10,501** | 1,838 |
| | | **33,869** | 3,106 |

# FORTUNE OIL PLC

## Annual Financial Report Announcement

## Consolidated Statement of Financial Position at 31 December 2010

| Amount in £'000 | Notes | **2010** | 2009 |
|---|---|---|---|
| **Assets** | | | |
| ***Non-current assets*** | | | |
| Property, plant and equipment | 6 | **65,194** | 94,126 |
| Goodwill | | **4,068** | 6,224 |
| Other intangible assets | | **14,473** | 6,130 |
| Prepaid lease payments | | **1,616** | 4,744 |
| Investments in jointly controlled entities | | **47,717** | 31,326 |
| Available-for-sale investments | | **-** | 849 |
| | | **133,068** | 143,399 |
| ***Current assets*** | | | |
| Inventories | | **4,280** | 5,260 |
| Trade and other receivables | | **45,132** | 14,817 |
| Cash and cash equivalents | | **100,349** | 55,766 |
| Assets classified as held for sale | | **10,625** | - |
| | | **160,386** | 75,843 |
| **Total assets** | | **293,454** | 219,242 |
| **Liabilities** | | | |
| ***Current liabilities*** | | | |
| Borrowings | | **15,276** | 30,192 |
| Trade and other payables | | **47,033** | 32,458 |
| Current tax liabilities | | **3,196** | 1,026 |
| | | **65,505** | 63,676 |
| Liabilities directly associated with assets classified as held for sale | | **2,874** | - |
| | | **68,379** | 63,676 |
| ***Non-current liabilities*** | | | |
| Borrowings | | **56,185** | 18,346 |
| Deferred tax liabilities | | **2,006** | 3,024 |
| Financial liabilities - cash flow hedges | | **564** | - |
| | | **58,755** | 21,370 |
| **Total liabilities** | | **127,134** | 85,046 |
| **Net assets** | | **166,320** | 134,196 |
| **Equity** | | | |
| ***Capital and reserves*** | | | |
| Ordinary shares | | **19,875** | 19,875 |
| Treasury shares | | **(898)** | (929) |
| Share premium | | **10,129** | 10,129 |
| Other reserves | | **3,422** | - |
| Hedging reserves | | **(564)** | - |
| Foreign currency translation reserve | | **23,653** | 13,854 |
| Retained earnings | | **60,316** | 47,157 |
| Equity attributable to owners of the parent | | **115,933** | 90,086 |
| Non-controlling interests | | **50,387** | 44,110 |
| **Total equity** | | **166,320** | 134,196 |

# FORTUNE OIL PLC

## Annual Financial Report Announcement

## Consolidated Cash Flow Statement for the Year Ended 31 December 2010

| Amount in £'000 | **2010** | 2009 |
|---|---|---|
| **Net cash from operating activities** | | |
| Profit for the year | **19,542** | 15,273 |
| Adjustments for: | | |
| Share of post-tax results of jointly controlled entities | **(11,171)** | (5,807) |
| Taxation | **6,526** | 2,784 |
| Amortisation | **359** | 409 |
| Depreciation | **8,163** | 7,134 |
| Loss on disposal of property, plant and equipment | **302** | 218 |
| Loss on disposal of prepaid lease payment | **45** | - |
| Fair value movement of investment properties | **-** | (362) |
| Gain on deemed disposal of an interest in a subsidiary | **-** | (865) |
| Gain on disposal of subsidiary undertakings | **(3,404)** | - |
| Share-based payments | **100** | 500 |
| Investment revenue | **(970)** | (421) |
| Finance costs | **2,954** | 2,532 |
| Decrease/(increase) in inventories | **593** | (1,016) |
| (Increase)/decrease in trade and other receivables | **(38,149)** | 2,240 |
| Increase in trade and other payables | **42,406** | 8,316 |
| Net cash from operations | **27,296** | 30,935 |
| Interest paid | **(2,954)** | (2,532) |
| Taxation paid | **(3,970)** | (2,719) |
| **Net cash from operating activities** | **20,372** | 25,684 |
| Interest received | **970** | 421 |
| Dividend received from jointly controlled entities | **2,413** | 2,584 |
| Payment for property, plant and equipment | **(15,381)** | (19,782) |
| Payment for other intangible assets | **(195)** | (4) |
| Payment for prepaid lease payments | **(36)** | (180) |
| Receipt from disposal of subsidiary undertakings | **12,952** | - |
| Payment for acquisition of subsidiary undertakings | **(2,703)** | - |
| Consideration paid on acquisition of additional interests in a subsidiary | **-** | (2,487) |
| Consideration for disposal of interest in a subsidiary | **6,252** | 1,265 |
| Receipt from disposal of property, plant and equipment | **3,052** | 469 |
| Receipt from disposal of investment properties | **-** | 2,185 |
| Receipt from disposal of prepaid lease payments | **13** | - |
| Investments in jointly controlled entities | **(507)** | (2,568) |
| Loan to jointly controlled entities | **(4,857)** | (706) |
| **Net cash from / (used in) investing activities** | **1,973** | (18,803) |

## Annual Financial Report Announcement

## Consolidated Cash Flow Statement for the Year Ended 31 December 2010 (cont.)

| Amount in £'000 | **2010** | 2009 |
|---|---|---|
| Proceeds from issue of share capital | **-** | 546 |
| Repayment of loans (to)/from non-controlling shareholders | **(1,838)** | 18 |
| Dividend paid to non-controlling shareholders | **(3,852)** | (3,406) |
| Net capital contribution to non-controlling shareholders | **-** | (2,063) |
| New bank loans raised | **46,117** | 4,555 |
| Repayment of borrowings | **(23,106)** | (12,451) |
| **Net cash from/(used in) financing activities** | **17,321** | (12,801) |
| **Net increase/(decrease) in cash and cash equivalents** | **39,666** | **(5,920)** |
| **Cash and cash equivalents at beginning of the year** | **55,766** | 67,823 |
| Cash flow effect of foreign exchange rate changes | **4,917** | (6,137) |
| **Cash and cash equivalents at end of the year** | **100,349** | 55,766 |

# FORTUNE OIL PLC

## Annual Financial Report Announcement

## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2010

| Amount in £'000 | Issued capital Ordinary shares | Issued capital Treasury shares | Share premium | Other reserve | Hedging reserve | Foreign currency translation reserve | Retained earnings | Attributable to owners of the parent | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2009** | 19,282 | (594) | 8,932 | - | - | 21,428 | 37,618 | 86,666 | 49,944 | 136,610 |
| Profit for the year | - | - | - | - | - | - | 8,842 | 8,842 | 6,431 | 15,273 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | (7,574) | - | (7,574) | (4,593) | (12,167) |
| Total comprehensive income for the year | - | - | - | - | - | (7,574) | 8,842 | 1,268 | 1,838 | 3,106 |
| Payment of dividends | - | - | - | - | - | - | - | - | (3,406) | (3,406) |
| Issue of share capital | 593 | - | 1,057 | - | - | - | - | 1,650 | - | 1,650 |
| Exercise of share options | - | - | 140 | - | - | - | 197 | 337 | - | 337 |
| Movement in treasury shares | - | (335) | - | - | - | - | - | (335) | - | (335) |
| Acquisition of additional interests in a subsidiary | - | - | - | - | - | - | - | - | (2,603) | (2,603) |
| Deemed disposal of interest in a subsidiary | - | - | - | - | - | - | - | - | (865) | (865) |
| Consideration for disposal of 3.7% interest in a subsidiary | - | - | - | - | - | - | - | - | 1,265 | 1,265 |
| Net capital contribution by non-controlling shareholders of subsidiaries | - | - | - | - | - | - | - | - | (2,063) | (2,063) |
| Share-based payments | - | - | - | - | - | - | 500 | 500 | - | 500 |
| **Balance at 31 December 2009** | 19,875 | (929) | 10,129 | - | - | 13,854 | 47,157 | 90,086 | 44,110 | 134,196 |

# FORTUNE OIL PLC

## Annual Financial Report Announcement

## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2010 (cont.)

| Amount in £'000 | Issued capital Ordinary shares | Treasury shares | Share premium | Other reserve | Hedging reserve | Foreign currency translation reserve | Retained earnings | Attributable to owners of the parent | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Profit for the year | - | - | - | - | - | - | 13,083 | 13,083 | 6,459 | 19,542 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | 10,849 | - | 10,849 | 4,042 | 14,891 |
| Loss on cash flow hedges arising during the year | - | - | - | - | (564) | - | - | (564) | - | (564) |
| Total comprehensive income for the year | - | - | - | - | (564) | 10,849 | 13,083 | 23,368 | 10,501 | 33,869 |
| Payment of dividends | - | - | - | - | - | - | - | - | (3,852) | (3,852) |
| Exercise of share options | - | - | - | - | - | - | 5 | 5 | - | 5 |
| Movement in treasury shares | - | 31 | - | - | - | - | (29) | 2 | - | 2 |
| Acquisition of a subsidiary | - | - | - | - | - | - | - | - | 4,857 | 4,857 |
| Deemed gain on disposal of 41.3% interest in a subsidiary | - | - | - | 3,422 | - | - | - | 3,422 | (3,422) | - |
| Non-controlling interest on consideration for disposal of 41.3% interest in a subsidiary | - | - | - | - | - | - | - | - | 11,831 | 11,831 |
| Disposal of subsidiaries | - | - | - | - | - | (1,050) | - | (1,050) | (13,638) | (14,688) |
| Share-based payments | - | - | - | - | - | - | 100 | 100 | - | 100 |
| **Balance at 31 December 2010** | **19,875** | **(898)** | **10,129** | **3,422** | **(564)** | **23,653** | **60,316** | **115,933** | **50,387** | **166,320** |

## Fortune Oil plc

### Notes to the Group financial statements for the year ended 31 December 2010

### 1. General Information

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009, but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered before 30 June 2011. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matter by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) of the Companies Act 2006.

**Basis of preparation**

The financial information set out in the announcement is extracted from the Company's full financial statements for the year ended 31 December 2010. Whilst the financial reporting included in this dissemination announcement has been computed in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company has published full financial statements that comply with IFRSs at the same day of this announcement. The accounting policies applied are consistent with those adopted and disclosed in the Company's financial statements for the year ended 31 December 2010.

### 2. Segmental Reporting

The Group has adopted IFRS 8 Operating Segments to identify six operating segments on the basis of internal reports about components of the Group which are reviewed regularly by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group has classified the operating divisions and the reportable segments under IFRS 8 as "Natural Gas", "Single point mooring facility", "Aviation Refuelling", "Trading", "Products Terminal" and "Others".

Information regarding these segments is presented below.

## (a) Operating segments

| | | | Oil | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Natural Gas | | Single point mooring facility | | Aviation Refuelling | | Trading | |
| Amount in £'000 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Revenue including share of jointly controlled entities | **96,677** | 73,846 | **15,007** | 14,142 | **273,925** | 199,438 | **170,479** | 107,126 |
| Share of revenue of jointly controlled entities | **(6,409)** | (3,083) | **-** | - | **(273,925)** | (199,438) | **-** | - |
| **Group revenue** | **90,268** | 70,763 | **15,007** | 14,142 | **-** | - | **170,479** | 107,126 |
| **Profit from operations (including share of results of jointly controlled entities)** | **10,839** | 8,781 | **5,554** | 5,732 | **8,782** | 4,167 | **1,105** | 1,290 |
| Office overheads * | | | | | | | | |
| **Operating profit, net of overheads** | | | | | | | | |
| Other gains | **3,404** | 865 | **-** | - | **-** | - | **-** | - |
| Finance costs | | | | | | | | |
| Investment revenue | | | | | | | | |
| **Profit before taxation** | | | | | | | | |
| Taxation | | | | | | | | |
| **Profit for the year** | | | | | | | | |
| **Attributable to** | | | | | | | | |
| Owners of the parent | | | | | | | | |
| Non-controlling interests | | | | | | | | |
| Capital additions | **14,260** | 16,623 | **1,107** | 3,116 | **-** | - | **14** | 43 |
| Depreciation | **4,651** | 4,275 | **3,445** | 2,792 | **8** | 7 | **59** | 60 |
| **Net assets: by class of business** | | | | | | | | |
| Assets | | | | | | | | |
| Segment assets | **174,532** | 156,311 | **19,248** | 17,840 | **27,907** | 16,047 | **69,925** | 27,940 |
| Unallocated assets | | | | | | | | |
| Consolidated total assets | | | | | | | | |
| Liabilities | | | | | | | | |
| Segment liabilities | **(42,673)** | (48,238) | **(2,089)** | (352) | **(36)** | (43) | **(20,323)** | (9,565) |
| Unallocated liabilities *** | | | | | | | | |
| Consolidated total liabilities | | | | | | | | |

**(a) Operating segments (cont.)**

| Amount in £'000 | Oil Products Terminal 2010 | Oil Products Terminal 2009 | Others** 2010 | Others** 2009 | Group 2010 | Group 2009 |
|---|---|---|---|---|---|---|
| Revenue including share of jointly controlled entities | **2,758** | 2,473 | **8,040** | 6,720 | **566,886** | 403,745 |
| Share of revenue of jointly controlled entities | **(2,758)** | (2,473) | **(8,040)** | (6,720) | **(291,132)** | (211,714) |
| **Group revenue** | - | - | - | - | **275,754** | 192,031 |
| **Profit from operations (including share of results of jointly controlled entities)** | **1,224** | 1,006 | **588** | 465 | **28,092** | 21,441 |
| Office overheads * | | | | | **(3,444)** | (2,138) |
| **Operating profit, net of overheads** | | | | | **24,648** | 19,303 |
| Other gains | - | - | - | - | **3,404** | 865 |
| Finance costs | | | | | **(2,954)** | (2,532) |
| Investment revenue | | | | | **970** | 421 |
| **Profit before taxation** | | | | | **26,068** | 18,057 |
| Taxation | | | | | **(6,526)** | (2,784) |
| **Profit for the year** | | | | | **19,542** | 15,273 |
| **Attributable to** | | | | | | |
| Owners of the parent | | | | | **13,083** | 8,842 |
| Non-controlling interests | | | | | **6,459** | 6,431 |
| Capital additions | - | - | - | - | **15,381** | 19,782 |
| Depreciation | - | - | - | - | **8,163** | 7,134 |
| **Net assets: by class of business** | | | | | | |
| Assets | | | | | | |
| Segment assets | **1,700** | 457 | **(133)** | (338) | **293,179** | 218,257 |
| Unallocated assets | | | | | **275** | 985 |
| Consolidated total assets | | | | | **293,454** | 219,242 |
| Liabilities | | | | | | |
| Segment liabilities | - | - | - | - | **(65,121)** | (58,198) |
| Unallocated liabilities *** | | | | | **(62,013)** | (26,848) |
| Consolidated total liabilities | | | | | **(127,134)** | (85,046) |
| | | | | | **166,320** | 134,196 |

* Includes overheads in UK/HK/PRC offices.

** Others include retail and distribution.

*** Includes bank loan, deferred tax and dividend withholding tax.

**b) Geographical operations**

With the exception of operating loss of £941,000 (2009: £656,000) in respect of office overheads in the United Kingdom, all of the Group's activities are carried out in the PRC and Hong Kong. The Directors are of the opinion that the PRC and Hong Kong form one geographic segment.

Non-current assets are mainly located in the PRC.

## c) Analysis of group revenue

| Amount in £'000 | **2010** | 2009 |
|---|---|---|
| Sales of goods | **262,078** | 182,273 |
| Income from gas connection contracts | **11,794** | 7,531 |
| Rental income | **1,207** | 1,419 |
| Others | **675** | 808 |
| | **275,754** | 192,031 |

## 3. Taxation

**The taxation charge for the year is analysed below:**

| Amount in £'000 | **2010** | 2009 |
|---|---|---|
| **Withholding tax** | | |
| Group withholding tax | **1,170** | 398 |
| Total withholding tax | **1,170** | 398 |
| | | |
| **Current tax** | | |
| Group current tax | | |
| UK tax | **-** | - |
| Foreign tax | **6,132** | 2,794 |
| Total current tax | **6,132** | 2,794 |
| | | |
| **Deferred tax** | | |
| Group deferred tax | **(776)** | (408) |
| Total deferred tax | **(776)** | (408) |
| Tax on profit on ordinary activities | **6,526** | 2,784 |

**The tax charge for the year differs from the standard rate of corporation tax and is explained below.**

| Amount in £'000 | **2010** | 2009 |
|---|---|---|
| Profit on ordinary activities before taxation | **26,068** | 18,057 |
| Theoretical tax at PRC corporation tax rate 25% (2009: 25%) | **6,517** | 4,514 |
| Effects of: | | |
| – Share of results of jointly controlled entities | **(2,793)** | (1,452) |
| – Nil or lower tax in PRC | **(724)** | (1,104) |
| – Tax losses not recognized | **1** | 294 |
| – Utilization of tax losses credit not previously recognized | **(281)** | (38) |
| – Other expenditure that is not tax deductible | **3,292** | 4,428 |
| – Income not taxable | **(508)** | (4,256) |
| – Withholding tax on dividend income | **1,170** | 398 |
| – EIT deduction on acquisition of domestically manufactured equipment | **(38)** | - |
| – Different tax rate | **(110)** | - |
| Total tax | **6,526** | 2,784 |

The above reconciliation uses a 25% (2009: 25%) standard rate of tax, being the standard rate of tax payable in the PRC, where the majority of the Group's activities take place.

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are entitled to exemption from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. In 2010, there are two PRC subsidiaries entitled the above tax holiday. One subsidiary enjoyed the first year of 50% reduction and the remaining enjoyed the last year of 50% reduction.

The Group tax charge above does not include any amounts for jointly controlled entities, whose results are disclosed in the income statement net of tax.

## 4. Dividends

The final dividend of £2.6 million (2009: Nil) of 0.13p (2009: Nil) per share in respect of the year ended 31 December 2010 has been proposed by the Directors and is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 5. Earnings per share

Earnings per share have been calculated on the earnings activities after taxation and non-controlling interest of £ 13,083,000 (2009: profit of £ 8,842,000)

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **No.** | | No. | |
| | **'000** | **pence** | '000 | pence |
| Basic | **1,896,089** | **0.69** | 1,873,799 | 0.47 |
| Share option adjustment | **724** | **-** | 3,911 | - |
| Diluted | **1,896,813** | **0.69** | 1,877,710 | 0.47 |

## 6. Property, plant and equipment

| **Group**<br>Amount in £'000 | **Assets in the course of construction** | **Motor vehicles, fixtures & fittings** | **Single point mooring buoy** | **Short leasehold property & improvements** | **Pipelines** | **Oil and gas development assets** | **Total** |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **At 1 January 2009** | **6,885** | **10,418** | **31,532** | **7,755** | **55,969** | **6,636** | **119,195** |
| Exchange differences | (628) | (1,048) | (3,305) | (808) | (5,930) | (254) | (11,973) |
| Additions | 11,133 | 724 | 3,115 | 662 | 1,133 | 3,015 | 19,782 |
| Disposals | - | (113) | (1,368) | (7) | (466) | - | (1,954) |
| Reclassification | (11,561) | 726 | - | 871 | 9,964 | - | - |
| **At 31 December 2009** | **5,829** | **10,707** | **29,974** | **8,473** | **60,670** | **9,397** | **125,050** |

## 6. Property, plant and equipment (cont.)

| Amount in £'000 | Assets in the course of construction | Motor vehicles, fixtures & fittings | Single point mooring buoy | Short leasehold property & improvements | Pipelines | Oil and gas development assets | Total |
|---|---|---|---|---|---|---|---|
| Exchange differences | 479 | 935 | 2,417 | 781 | 5,696 | 807 | 11,115 |
| Additions | 6,679 | 776 | 1,105 | 157 | 987 | 5,677 | 15,381 |
| Acquisition | 234 | 221 | - | - | - | - | 455 |
| Disposal of subsidiaries | (1,511) | (4,062) | - | (5,364) | (27,280) | - | (38,217) |
| Transfer to Assets held for sale | (957) | (324) | - | (210) | (9,537) | - | (11,028) |
| Disposals | - | (3,800) | (928) | (6) | (250) | - | (4,984) |
| Reclassification | (3,237) | (268) | - | 484 | 3,021 | - | - |
| **At 31 December 2010** | **7,516** | **4,185** | **32,568** | **4,315** | **33,307** | **15,881** | **97,772** |
| **Depreciation** | | | | | | | |
| **At 1 January 2009** | **-** | **3,479** | **18,834** | **1,372** | **5,412** | **-** | **29,097** |
| Exchange differences | - | (439) | (1,998) | (232) | (1,379) | - | **(4,048)** |
| Charge for the year | - | 1,042 | 2,696 | 333 | 3,063 | - | **7,134** |
| Reclassification | - | (142) | - | (15) | 157 | - | **-** |
| Disposals | - | (88) | (1,103) | (4) | (64) | - | **(1,259)** |
| **At 31 December 2009** | **-** | **3,852** | **18,429** | **1,454** | **7,189** | **-** | **30,924** |
| Exchange differences | - | 403 | 1,585 | 215 | 1,397 | - | 3,600 |
| Charge for the year | - | 1,096 | 3,347 | 366 | 3,354 | - | 8,163 |
| Acquisition | - | 57 | - | - | - | - | 57 |
| Disposal of subsidiaries | - | (1,441) | - | (939) | (4,733) | - | (7,113) |
| Transfer to Assets held for sale | - | (200) | - | (49) | (1,103) | - | (1,352) |
| Disposals | - | (1,336) | (168) | (2) | (195) | - | (1,701) |
| Reclassification | - | (95) | - | 35 | 60 | - | - |
| **At 31 December 2010** | **-** | **2,336** | **23,193** | **1,080** | **5,969** | **-** | **32,578** |
| **Net book value** | | | | | | | |
| **At 31 December 2010** | **7,516** | **1,849** | **9,375** | **3,235** | **27,338** | **15,881** | **65,194** |
| **At 31 December 2009** | 5,829 | 6,855 | 11,545 | 7,019 | 53,481 | 9,397 | 94,126 |

The amounts capitalised in respect of Liulin Coal Bed Methane Block as oil and gas development assets of £15,881,000 (2009: £9,397,000) have not been depreciated as commercial production had not commenced.

## 7. Acquisition of subsidiaries

On 19 May 2010, the Group acquired 51% of the issued share capital of Liaoning Fortune Gas Company Limited ("Liaoning") for a cash consideration of £1,269,000, obtaining control of this company. Liaoning has the right to develop the spur pipeline and gas distribution in Dashiqiao areas.

On 20 August 2010, the Group acquired a 65% controlling interest in the issued share capital of Beijing Everthriving Energy Technology Company Limited ("Everthriving Energy") for cash consideration of £3,584,000. Everthriving Energy has the right to use the diesel engine oil – LNG dual fuel technology that will be used to develop LNG refueling stations in the Yangtze River.

The purchase agreement for Everthriving Energy specifies that additional consideration of RMB50 million (£4.93 million) is payable after certain conditions are met, including receipt of government approval for refitting marine diesel oil-LNG dual fuel technology, execution of not less than 1,500,000 tons of marine diesel oil-LNG dual fuel refitting, and obtaining government approval for six LNG refuelling stations along Yangtze river. The directors consider it probable that all of the conditions will be met by the end of 2012, and therefore a provision for additional consideration of £3.32 million has been recorded from the date of acquisition, using a pre-tax discount rate of 17.63%.

Neither of these acquisitions meet the definition of a business combination is outlined in IFRS 3 - Business Combinations, as the acquired companies did not have any systems, resources of outputs, and had not commenced their planned principal activity. As such, the transactions have been accounted for an asset acquisition resulting in the recognition of identifiable intangible assets of £1,541,000 in respect of Liaoning and £6,111,000 in respect of Everthriving Energy.

## 8. Disposal of interest in subsidiaries

The Group disposed of its interest in Shuozhou Jingping Natural Gas Limited on 1 August 2010 and Henan Green Energy Development Company Limited on 31 October 2010.

The net assets of Shuozhou Jingping Natural Gas Limited and Henan Green Energy Development Company Limited at the date of disposal were as follows:

| Amount in £'000 | Shuozhou Jingping Natural Gas Limited | Henan Green Energy Group | Total |
|---|---|---|---|
| Interest in jointly controlled entities | - | 2,073 | 2,073 |
| Due from jointly controlled entities | - | 1,709 | 1,709 |
| Available-for-sale investment | - | 919 | 919 |
| Goodwill | 40 | 2,541 | 2,581 |
| Property, plant and equipment | 743 | 30,361 | 31,104 |
| Other intangible assets | - | 25 | 25 |
| Prepaid lease payments | - | 3,452 | 3,452 |
| Inventories | 3 | 776 | 779 |
| Trade and other receivables | 67 | 7,672 | 7,739 |
| Bank and cash balance | 187 | 2,079 | 2,266 |
| Trade and other payables | (453) | (13,170) | (13,623) |
| Taxation | 3 | (473) | (470) |
| Deferred tax liabilities | - | (1,523) | (1,523) |
| Borrowings | - | (2,070) | (2,070) |
| Due to owners | - | (8,459) | (8,459) |
| | 590 | 25,912 | 26,502 |
| Non-controlling interests | (200) | (13,438) | (13,638) |
| | 390 | 12,474 | 12,864 |

| | | | |
|---|---|---|---|
| Exchange difference | (46) | (1,004) | (1,050) |
| Gain on disposal | 69 | 3,335 | 3,404 |
| Total consideration | 413 | 14,805 | 15,218 |
| | | | |
| Satisfied by: | | | |
| Cash and cash equivalents | 413 | 14,805 | 15,218 |
| | | | |
| Net cash inflow arising on disposal: | | | |
| Consideration received in cash and cash equivalents | 413 | 14,805 | 15,218 |
| Less: cash and cash equivalent disposed of | (187) | (2,079) | (2,266) |
| | 226 | 12,726 | 12,952 |

The consideration was all settled in cash by the purchasers at the end of the year.

## 9. Deemed disposal of an interest in a subsidiary

Further to the Subscription and Shareholders Agreement dated 18 December 2009, the Group further disposed of total 41.3% interest in Fortune Liulin Gas Company Limited (FLG) on 25 March 2010 and 15 December 2010 respectively to Dart Energy (previously Arrow Energy International). Following these sales, the Group's interest in FLG is 55% and control is retained by the Group. In accordance with IAS27 (2008) no gain or loss has been recognised in the Income Statement in relation to this transaction but has been recognised within other reserves.

The net assets of Fortune Liulin Gas Company Limited at the date of disposal were as follows:

| Amount in ￡'000 | March 2010 * | March 2010 * | December 2010 | Total |
|---|---|---|---|---|
| **Net assets disposed of:** | | | | |
| Intangible assets | 3 | 3 | 3 | |
| Tangible assets | 11,666 | 11,666 | 17,406 | |
| Trade and other receivables | 37 | 37 | 42 | |
| Bank and cash balance | 4,550 | 4,550 | 4,566 | |
| Trade and other payables | (603) | (603) | (5,313) | |
| Due to fellow subsidiary | (436) | (436) | (639) | |
| Due to immediate holding company | (635) | (635) | (1,916) | |
| | 14,582 | 14,582 | 14,149 | |
| % disposal | 5.20% | 26.10% | 10.0% | |
| Net assets to be disposed | 758 | 3,806 | 1,415 | 5,979 |
| Additional net asset shared by non-controlling interests | - | - | 2,537 | 2,537 |
| Deemed gain on disposal | 724 | 1,011 | 1,687 | 3,422 |
| Exchange difference | (18) | (88) | (1) | (107) |
| Total consideration | 1,464 | 4,729 | 5,638 | 11,831 |

| | | | | |
|---|---|---|---|---|
| **Net cash inflow arising on disposal:** | | | | |
| Cash consideration | - | 3,433 | 2,819 | 6,252 |
| Cash consideration received in 2009 | 1,464 | 1,296 | - | 2,760 |
| Cash consideration received in 2011 | - | - | 2,819 | 2,819 |
| | 1,464 | 4,729 | 5,638 | 11,831 |

* Transactions executed under separate agreements.

The gain has been recognised in equity as described in the accounting policies in Note 1 “basis of consolidation”. In previous periods, the gain or loss on transactions with subsidiary undertakings without the loss of control were recognised in the income statement.

Dart Energy will be able to exercise a series of options that have been granted to Dart Energy to increase its shareholding in FLG as follows:

*Option 1b*

Exercisable within 6 months from 30 June 2011 or a date when an Overall Development Program (ODP) has been approved for part of the block (whichever earlier), under which Dart Energy can invest US$4 million for new shares representing a further 5 per cent of the enlarged issued share capital of FLG.

Subsequent to the exercise of Option 1b, it is anticipated that Dart Energy and FGE will both have a 50 per cent interest in FLG with joint control.

*Option 2*

Dart Energy has also been granted the right to acquire from FGE a 25 per cent interest in FLG for payment of US$40 million, which would increase Arrow’s shareholding in FLG to 75 per cent. Option 2 will only be exercisable in the 3 years from the date that the first ODP approval is obtained and in any case is exercisable only up until 31 December 2014; in addition the Group and Dart Energy must have co-invested in at least two other CBM production sharing contracts in which Fortune Oil Group holds a minimum interest of 25 per cent.

## 10. Related party transactions and significant contracts

The Group's related parties, the nature of the relationship and the extent of transactions with them are summarised below:

| Amount in £'000 | **Sub note** | **2010** | 2009 |
|---|---|---|---|
| Loans from equity non-controlling interests in subsidiaries | 1 | **(1,364)** | (2,959) |
| Loans to equity non-controlling interests in subsidiaries | 1 | **3,574** | - |
| Other loans from major shareholders | 2 | **-** | (3,907) |
| Interest paid and payable to major shareholders | 2 | **32** | 48 |
| Trade account receivable from non-controlling shareholders | 3 | **3,161** | 425 |
| Shareholder loans to jointly controlled entities | 4 | **8,651** | 5,281 |
| Sales of goods to jointly controlled entities | 5 | **2,832** | - |
| Purchase of goods from Vitol Asia | 5 | **9,692** | 2,747 |

| | | | |
|---|---|---|---|
| Purchase of goods from jointly controlled entities | 5 | **1,150** | 1,801 |
| Current account with Vitol Asia | 5 | **(456)** | (437) |
| Current account with jointly controlled entities | 5 | **(32)** | (221) |

**Sub notes**

1. *The loans £1,364,000 (2009: £2,959,000) comprised loans from the non-controlling shareholders of Shuozhou Jingshuo Natural Gas Limited, Luquan Fu Xin Gas Company Limited and Shuozhou Fu Hua Natural Gas Limited. Except for £Nil (2009: £1,480,000) from non-controlling shareholders of Beijing Fuhua Dadi Gas Limited which is interest bearing of range at 5.841% to 6.116% p.a. (2009: 5.841% p.a.), the loans are unsecured, interest free and without fixed payment terms. Loans of £3,574,000 (2009: Nil), comprised mainly loans to the non-controlling shareholders of Fortune Liulin Gas Company Limited and Beijing Everthriving Energy Technology Company Limited, are unsecured, interest free and without fixed payment terms.*

**2.** *Other loans at 31 December 2010 were £Nil (2009: £3,907,000) from the major shareholder First Level Holdings Limited (FLHL) . The amount due is unsecured, interest bearing at LIBOR plus 2% and without fixed payment terms. The interest payable to FLHL was £32,000 (2009: £48,000) all of which was paid at 31 December 2010 (2009: £47,000).*

**3.** *Maoming Petrochemical Corporation (MPCC) is a corporate shareholder of the Group's subsidiary, Maoming King Ming Petroleum Company Limited and has representatives on the Board. Throughputting turnover from MPCC amounted to £14,366,000 (2009 : £13,149,000). £3,161,000 was owed at 31 December 2010 (2009: £425,000).*

**4.** *The shareholder loans are part of shareholders' investment in the jointly controlled entities. These are common methods of making an investment in jointly controlled entities in China. £8,652,000 (2009: £ 5,289,000) was due from Tianjin Tianhui Natural Gas Limited, Xinyang Fortune Vehicle Gas Company Limited, Beijing Fuhua Natural Gas Logistic Limited and Jining Qufu New Fu Hong Gas Limited. The remaining balances relate to a number of other jointly controlled entities.*

**5.** *Vitol Energy (Bermuda) Limited is a shareholder of the Company. Purchases from Vitol Asia Pte Ltd amounted to £9,692,000 (2009: £2,747,000) and purchases from jointly controlled entity - Shandong Green Energy Gas Company Limited, the jointly controlled entity of Henan Fortune Green Energy Development Company Limited, and Jining Qufu New Fu Hong Gas Limited amounted to £Nil and £ 1,150,000 (2009: £717,000 and £1,085,000) respectively. Sales from Group's subsidiary, Xinyang Fortune Gas Company Limited to Group's jointly controlled entity, Xinyang Fortune Vehichle Gas Company Limited, amounted to £2,832,000 (2009: Nil).*

*Current account due to Vitol Energy (Bermuda) Limited amounted to £456,000 (2009: £437,000). Current account due to jointly controlled entities, Jining Qufu New Fu Hong Gas Limited and Shandong Green Energy Gas Company Limited, amounted to £32,000 and £Nil (2009: £157,000 and £64,000) respectively.*

## 11. Subsequent Events

***Fortune Oil Acquires Significant Stake in Armenian Iron Ore Mines***

On 12 January 2011, Fortune Oil PLC has invested a total of US$24 million for a 35% equity interest in Bounty Resources Armenia Limited ("BRAL"), a company which controls three iron ore mines in Armenia. The licences to the three Armenian mines are owned by Nagin LLC (a locally incorporated entity) which in turn is a 72% subsidiary of Caspian Bounty Steel Limited ("CBSL"), an 83.3% subsidiary of BRAL. In addition, Fortune Oil PLC has acquired the remaining 16.7% minority shareholding in CBSL for US$2 million.

Under the agreement, Fortune Oil has the option to invest a further US$16 million for an additional 15% of BRAL (the "Option"), which would take the entire investment amount for the 50% stake to US$40 million. BRAL currently only has one other shareholder, Bounty Investment Holdings Limited, an investment holding company in various energy/resources projects globally. The acquisition is being effected through Giant Global Development Limited, a subsidiary of Fortune Oil.

This acquisition does not meet the definition of a business combination as outlined in IFRS 3– Business Combinations, as the acquired companies did not have any systems, resources or outputs and had not commenced their planned principal activity.

***Joint Venture Agreement Supplying LNG to Public Transport***

On 10 February 2011, a joint venture agreement has been entered with Shenyang Zhonglian Enterprise Development Co., Ltd ("Shenyang Development") and Able Field International Limited to provide Liquefied Natural Gas to public transit vehicles in Liaoning Province, China. Shenyang Development is a privately-owned enterprise, and one of the market leaders in providing transportation services, with strong government relationships within Liaoning Province, China.

***Fortune Oil Financing***

On 4 April 2011, Fortune Oil PRC Holdings Limited signed a US$180 million (£112 million) loan agreement. The facility is denominated in USD with a term of three years and a margin of 2.6% over LIBOR. The facility is guaranteed by Fortune Oil and secured by share charges over its various Hong Kong subsidiaries.

**12.** Copies of this report are available from the Group's Registered Office at 6/F, Belgrave House, 76 Buckingham Palace Road, London SW1W 9TQ.

## GOING CONCERN STATEMENT

The Group's business activities and associated opportunities and risks are set out in the business review of the Annual Report and Accounts. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review set out in the Annual Report and Accounts. In addition, note 26 to the group financial statements includes the Group's objectives, policies and processes for its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

As explained in note 26 to the group financial statements, the Group meets part of its capital expenditure requirements from medium term loan facilities. In April 2010 a new loan facility was entered into Fortune Oil PRC Holdings Limited, which was used to refinance the previous loan facility and provide general working capital and funding for the Group. The facility size was US$80 million (£52 million) and the loan matures in April 2013. The Group has announced on 4 April 2011 that it has signed a US$180 million (£112 million) loan agreement and the proceeds will be used to repay the US$80 million facility and provide further development capital.

The Group faces uncertainty over (a) the level of demand for the Group's products and services; (b) international commodity process and the rate of change of such prices; (c) international exchange rates that affect commodity prices and hence the Group's revenues in China as denominated in US dollars or sterling; (d) the availability of bank or equity finance in the foreseeable future; and (e) counterparty credit risk.

As at 31 December 2010, the Group had a cash balance of £100.3 million and a net cash balance of £28.9 million. In addition, the Group expects to generate positive cash flow from operations.

The Group's current forecasts and projections, adjusting for reasonably possible changes in trading conditions, show that the Group will be able to meet its obligations under the loan agreements and to operate within the required covenants.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## PRINCIPAL RISKS AND UNCERTAINTIES

Our business is supplying China with energy and resources, principally oil and natural gas. We face many risks and whilst we can manage some, we have to accept others as part of doing business. We face the usual economic risks – prices, interest rates, supply and demand for the products we produce and deliver – which we cannot control. Outlined below are the principal risk factors that may affect the Group's business. Any of these risks, as well as the other risks and uncertainties discussed in this document, could have a material adverse effect on the business. In addition, the risks set out below may not be exhaustive, and additional risks and uncertainties may arise or become material in the future.

**Concentration risk**
Our principal assets and operations are located in China and we sell all our products and services to China. Any adverse change in the economic or political environment in China would seriously affect the profitability and possibly viability of our entire business. We seek, through maintaining high level contacts and through providing high quality services, to minimise any adverse consequences.

**Pricing risks**
Our business sells products where we have little or no control over the price we achieve. The price we pay for product we on-sell is also largely out of our control. The interest rate we pay for debt and the interest we receive on surplus cash, and the exchange rates applying to transactions where we need to exchange currencies, are all set by international markets or by governmental regulation. Adverse movements in prices, interest rates or exchange rates can result in actual losses on transactions, increased costs or decreased revenues or losses on translation into our reporting currency. We seek to mitigate the effects of these risks through management of stocks of product in storage or transit, through currency matching of the costs of products sold to revenue produced and through holding cash in the currencies where expenditure is expected.

**Regulatory and relationships risks**
The energy sector in China is subject to a variety of regulatory regimes covering many of the Group's operations, both at the national and local government levels. The regulatory environment continues to evolve but includes restrictions on foreign ownership and participation in certain activities; land use and industry permitting; and health, safety and environmental obligations. Our operations are often carried out in joint ventures or through associated companies or, in the case of gas production, through production sharing contracts (PSC) or rely on medium term and long term supply agreements with state-owned enterprises. If regulations change, or we or our partners fail to abide by regulations or meet the requirements of PSC or supply agreements, then we may lose rights or suffer fines or other penalties. Our management aims to be aware of any prospective changes in regulation and to ensure we comply, and to seeks to maintain a positive and constructive working relationship with our partners and with state-owned companies so that decisions can be taken together to ensure compliance with regulation and PSC and supply agreements.

**Health, Safety and the Environment (HSE)**
The Group operates facilities in the oil and gas industry where there is an inherent risk of accidents that may harm employees, assets, the community or the environment. Such accidents may have an adverse impact on the ongoing operations, revenues and profits of the Group. We seek through the Group's HSE policies to observe all local and national legal and regulatory requirements. We also carry out pre-project and regular review risk assessments to ensure where possible that processes and procedures are in place to reduce and manage such incidents.

**Attraction and retention of key employees**

We rely heavily on a small number of key individuals, in particular the Executive Directors at Group and subsidiary levels, for the operation of Group's day to day activities and implementation of its growth strategy. If a key employee left we could suffer disruption to projects or a business area until a replacement was recruited. We seek to set remuneration policies which will attract and retain suitably qualified employees but also seek to facilitate succession planning and ensure that there is a sharing of knowledge and contacts to minimise the impact of any one person's departure.

**Development risks**

As we grow the business we need to take on new developments of a long-term nature; these can be exploring and developing new reserves of gas or minerals, building pipelines, storage and delivery facilities or converting existing transport equipment to use gas. All these require national and/or local government consents and need to obtain finance, to source appropriate equipment and services and to build the necessary infrastructure. Whilst we seek to take the investment decision based on the best available information, the actual process will be affected by delays or changes in regulation, reserves proving smaller or more complex than predicted, delays in delivery or construction, or facilities or technology not reaching expected performance. This may extend the completion of projects and delay the start of their income production beyond that planned or even make them uneconomic. To mitigate this we seek not only at the start but during project implementation to work with regulators, financiers, partners and contractors to ensure that delays are minimised and projects are kept economically viable.

**Uninsured risks**

We operate with hazardous products and do not operationally control all businesses in which we participate. In the event of an accident, substantial damages may be claimed against us due to our actions or omissions or those of a partner or sub-contractor. Any indemnities the Group may receive from such partners or sub-contractors may be difficult to enforce if they lack adequate resources or have themselves not put in place adequate insurance cover. We seek to manage this risk by selecting good quality, financially secure partners and sub-contractors and ensuring they confirm that they have appropriate safety procedures and insurance cover, and by seeing that our insurance cover is reasonable based on the costs of cover and the risks associated with our business and industry practice.