

28 APRIL 2010

**FORTUNE OIL PLC**  
**(“Fortune Oil” or “the Company”)**



**Annual Financial Report Announcement**

*Fortune Oil invests in and manages oil and gas supply and infrastructure projects in China. Fortune Oil is quoted on the full list 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 2009.*

**FINANCIAL HIGHLIGHTS**

- Revenues increased by 11 per cent to £404 million (2008: £365 million).
- Operating profit more than doubled to £19.3 million (2008: £9.0 million), the highest in the Company’s history, after excluding gains on disposal in both 2008 and 2009.
- Profit attributable to equity shareholders was £8.8 million (2008: £9.0 million).
- Gas distribution operating profit increased by 36 per cent to £8.8 million (2008: £6.4 million).
- Bluesky contribution turned from a loss of £3.0 million in 2008 to a profit of £4.2 million in 2009.
- Earnings per share of 0.47 pence (2008: 0.49 pence).
- Net cash from operating activities increased by 180 per cent to £25.7 million (2008: £9.2 million).
- Net cash position at 31 December 2009 of £7.2 million (2008: £5.6 million).
- New loan facility of US\$80 million signed on 14 April 2010.

**OPERATIONAL HIGHLIGHTS**

- Every Fortune Oil business achieved higher volume sales and higher operating profit than in 2008.
- Gas sales increased by 36 per cent to 482 million cubic metres (2008: 354 million).
- Fortune Gas now has 142,000 connected customers, 941 km of pipeline, 27 CNG stations and 2 LNG trains.
- Bluesky posted a record performance, with an increase in domestic travel demand and a stable fuel pricing regime in place.
- Independent probable plus possible reserve estimates in the Liulin CBM block tripled to 2.4 billion cubic metres.
- Significant investment in Liulin CBM block by Arrow Energy International: US\$13.3 million already received and options issued for further payments exceeding US\$53 million.

**CURRENT TRADING & OUTLOOK**

- China’s economy growing strongly, providing favourable trading conditions, with surging demand for energy.
- Significant state investment in infrastructure that assists Fortune Oil’s commercial objectives.
- Board changes, including promotion to Chief Executive of Tee Kiam Poon, who has more than 30 years’ experience working with BP in Asia.

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

*“As energy demand in China continues to grow, all of Fortune Oil’s ventures performed strongly. Demand for natural gas continued to outstrip supply and our gas business continues to be the Company’s principal growth engine.*

*“Last year was our best on record in terms of volume sales, profit and strategic progress, despite the economic uncertainties that affected many other industries. Our operating performance and strong financial position now leave us well placed in an increasingly favourable trading environment and a growing economy. We continue to see new opportunities as China’s energy*

*demand energy surges and, particularly through our alliances, we will continue to strengthen our business.”*

**ENQUIRIES:**

**Fortune Oil PLC**

Tee Kiam Poon

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## **FORTUNE OIL PLC**

### **ANNUAL FINANCIAL REPORT ANNOUNCEMENT 2009**

In accordance with the Disclosure and Transparency Rules, we set out below the extracts from the 2009 Annual Report and Accounts in unedited full text. The Annual Report and Accounts is available on the Company's website [www.fortune-oil.com](http://www.fortune-oil.com) and will be posted to shareholders who have elected to receive a hard copy of this document no later than 17 May 2010.

### **CHAIRMAN'S STATEMENT**

#### **Introduction**

In 2009 China led the world in its recovery from the economic crisis. China rebounded more swiftly than any other big economy, thanks largely to its enormous monetary and fiscal stimulus programme. In many ways the Chinese model of economic development and financial management proved to be successful again with significant focus on infrastructure development. This infrastructure development links inland provinces to coastal regions, provides sustainable development across the country and narrows the gap between the inland and the coastal provinces. A good example is Liulin, where we are developing coal bed methane reserves. A few years ago Liulin was only accessible via a single-lane road blocked by coal trucks, now there is a motorway through our gas field and in the coming year a high speed rail line will connect to Beijing. Liulin will be one of the world's first gas fields with a high speed rail connection.

As energy demand continues to grow, all of Fortune Oil's ventures achieved record volume sales and operating profits in 2009. Demand for oil products recovered stronger than we anticipated. The government also implemented a policy of keeping jet fuel prices in line with international levels, enabling Bluesky to achieve a record profit contribution.

China produced 85 billion cubic metres of gas and consumed 89 bcm in 2009. China's annual gas imports are forecasted to exceed 135 bcm by 2020 and by the same date China aims to reduce coal's share in its energy mix to 60% from the current 70%, while gas is expected to rise to 10% from 4% at present. Demand for natural gas continues to outstrip supply and the gas business continues to be the Company's principal growth engine with volume sales and operating profit rising by 36% across Fortune's gas business over 2009.

#### **Operations and Results**

The group achieved outstanding results in 2009. The net cash from operating activities increased by 180 per cent to £25.7 million in 2009 compared to 2008, the Group profit from operations increased by 114 per cent to £19.3 million, the highest ever. The profit attributable to shareholders was £ 8.8 million (2008: £9.0 million).

Fortune's strength lies in joint ventures and relationships with our joint venture partners in developing growth options and new projects. A typical example is in Dashiqiao in Liaoning province where we are developing a gas business that substitutes polluting coal in one of the world's largest manufacturing centre for refractory materials. Another example is our recent strategic alliance with Arrow Energy International and this will strengthen our upstream CBM activities and our ambition to develop an integrated gas business. As a Group we will continue to seek joint venture developments and strategic alliances both domestically and internationally and pursue vigorous growth options to achieve scale, profit and materiality.

## Management and Governance

Given the enormous opportunity and our commitment to grow the Company, we are proposing comprehensive changes to the Board and Management team with clear performance targets and accountabilities with new disciplines to drive future growth.

In June Mdm Li Ching will relinquish her role as Chief Executive; she remains an Executive Director. I would like, on behalf of the shareholders, to express our deep gratitude and appreciation for Mdm Li's excellent contribution to the Company over the last 10 years by successfully nurturing and developing the Company to where we are today and setting a solid foundation for future growth.

The Board will appoint Tee Kiam Poon as Chief Executive to succeed Mdm Li. Mr. Tee joined Fortune Oil as Development Director a year ago. He is an extremely capable and energetic senior director and with his 30 years working experience in BP will provide the impetus to grow the Company and take it to the next level of performance.

John Pexton, Deputy Chief Executive, will be leaving the Company at the end of June to take up new employment in Singapore. Executive Directors Gong Min, Tian Jun and Ye Qing will retire from the Group Board at the coming AGM and will not seek reappointment. They will remain in their management roles and as respective directors of our China operations. I would like to thank all of them for their excellent contributions over the years and in particular John who has led the development of the gas business over the last 6 years. A recent business venture with Daniel Chiu means that Mr. Wang Jin Jun is no longer an Independent Director. The Company intends to seek more Independent Directors to further strengthen its corporate governance.

Paul Kwong, currently Financial Controller, will succeed Stanley Chau as Group Financial Controller. Stanley has resigned due to family reasons. It is the intention of the Company to look for a suitable candidate to be the Chief Financial Officer whose main duties will, amongst others, be to focus on investor relations, corporate financing, strategic planning, regulatory reporting and corporate development including M&A activities.

With a smaller, more focused Board structure, a dedicated management team and a compelling strategy, we look forward to taking the Company forward, confident in our ability to achieve further growth.

## CHIEF EXECUTIVE'S REVIEW

### Overview

In 2009 the operating environment and energy prices in China were relatively stable after the severe volatility seen in 2008. Economic growth and energy demand accelerated in the second half of the year. In 2009 every Fortune Oil business achieved higher volume sales and higher profit than in 2008 and the Group profit after tax of £15.3 million was the highest ever, despite the economic downturn at the start of the year. In particular, the contribution from the Bluesky aviation refuelling business turned from a £3.0 million loss in 2008 to a record profit of £4.2 million in 2009. A major upstream alliance was also formed with Arrow Energy International, whose investment in the Liulin Coal Bed Methane block underlined the importance of Liulin as a State Pilot Project for demonstrating coal seam gas production in China.

Higher volume sales across the Group drove an 11 per cent increase in revenues to £404 million (including the Group's share of jointly controlled entities) despite a reduction in year-on-year jet fuel prices. The record Group operating profit of £19.3 million represents a 114 per cent increase after excluding gains on disposal for both 2008 and 2009. Profit attributable to shareholders was £8.8 million (2008: £9.0 million) and earnings per share in 2009 were 0.47 pence (2008: 0.49 pence).

### New Term Loan

On 14 April 2010 Fortune Oil PRC Holdings, the Hong Kong holding company for the Company's China operations, signed a loan facility agreement with a club of banks led by Standard Chartered. The facility size is US\$80 million (£52 million) with a term of three years and a margin of 270 basis points over LIBOR or HIBOR. The facility was used to repay the US\$25 million balance of the previous term loan at its maturity date of 26 April 2010. The balance of the new facility will be used for working capital and for new investments by the Group.

### Oil Sector Operations

The **Bluesky** aviation refuelling business had a dramatic turnaround in 2009. Volume sales grew 17.7 per cent to 2.1 million tonnes because of increased demand for domestic travel. In 2008 the South China Bluesky Aviation Oil joint venture had recorded a negative contribution for Fortune Oil of £3.0 million, largely due to an inventory write-down in December 2008 following a severe cut in the government-set prices for domestic jet fuel. In early 2009 a new pricing policy was implemented whereby domestic prices track international prices more closely. Margins in the jet fuel market in 2009 were therefore stable and the higher volume sales enabled Bluesky to achieve a record profit in 2009.

Crude oil deliveries through the **Maoming SPM** (MKM subsidiary) increased in 2009 to 9.2 million tonnes and net profit rose by 8 per cent to £4.6 million. The buoy system was successfully overhauled in early 2009, resulting in a one-month shut down period.

Throughput for the **West Zhuhai Oil Products Terminal** increased to 2.2 million tonnes and the profit contribution from the joint venture increased by 53 per cent to £1.0 million. The storage capacity of the terminal will be doubled to 457,000 cubic metres once a £11.9 million investment programme to expand the customer and products base is completed in 2011.

Our **Trading** business expanded in 2009 with the import and export of non-regulated oil products and petrochemicals on a low-risk agency or back-to-back basis. The profit contribution was maintained at £1.0 million. None of the operations of the Fortune Oil Group had significant exposure to derivatives as of 31 December 2009.

## **Fortune Gas**

The Company's gas business is held through Fortune Gas, in which Wilmar International Limited acquired a 15 per cent interest in late 2008. The Fortune Gas retail and wholesale gas operations sold 482 million cubic metres (m<sup>3</sup>) of gas in 2009, a 36 per cent increase over 2008. This gas distribution business generated an operating profit of £8.8 million, also a 36 per cent increase over 2008. In 2009 there was growth in all our gas operations and we now have 142,000 connected customers, a pipeline network of 941 km, 27 CNG stations and two LNG liquefaction trains.

Our focus is north and central China, covering Beijing, Tianjin, Hebei Province, Henan Province, Liaoning Province, Shandong Province and Shanxi Province. Currently there is already partial integration of the operations across the gas chain, for example supplying our wholesale CNG and LNG to our retail city gas companies. In the coming year we expect to achieve full integration for part of our gas business as we build compression facilities in the Liulin CBM block to market the gas production as CNG to customers in Shanxi Province.

## **Coal Bed Methane**

Our coal bed methane project at Liulin is a unique asset and has made substantial progress over the past year. In early 2009 the Liulin CBM block was designated a State Science and Technology Significant Project for demonstrating CBM production in the Ordos Basin. This is the only CBM State Pilot Project wherein a foreign company (Fortune Liulin Gas, FLG) is co-investing with a government partner (CUCBM). The agreed objective of the combined drilling campaign is to demonstrate a gas production capacity of 50 million cubic metres per year (1.8 billion cubic feet per year) from the wells drilled in 2009 and 2010 in the contract area for the Production Sharing Contract (PSC). Gas sales agreements are currently being negotiated for the future sale of CBM and this year the Company's CUCBM Shanxi joint venture should begin construction of CNG stations for Liulin gas sales.

Significant progress is also being made in proving up the reserves as determined by both the Chinese and international certification systems. In late 2009 the application for Chinese reserves certification was completed for a northern section of the block, and this was the first time that a foreign company had been named as the exploration company for a CBM reserves certification. This certification is particularly important as it enables FLG to prepare an Overall Development Plan (ODP) for full development, particularly now that the Ministry of Commerce has also extended the formal exploration period of the PSC to 29 March 2012. Using international certification methods, in October 2009 independent consultants NSAI tripled their probable plus possible reserve estimates in the Liulin CBM block to 2.4 bcm (86.2 bcf) for the major seams.

A further indicator of Liulin's value was the investment in December 2009 by Arrow Energy International, following the Company's buy-out of Molopo Energy's share of FLG. Arrow Energy International has a 35 per cent interest in FLG for which it has paid a total of US\$13.3 million (£8.3 million) and has options to move progressively to a 75 per cent interest in return for further payments exceeding US\$53 million (£33 million). Personnel from Arrow Energy International have already been integrated into the FLG operations team and they bring significant technical expertise, for example in designing FLG's first lateral wells.

The co-operation in Liulin is the first step in a strategic alliance with Arrow Energy International that will strengthen Fortune Oil's integrated gas business, combining their upstream CBM expertise with Fortune Oil's gas distribution capabilities and extensive operating experience in China. The alliance will extend beyond CBM to the recovery of gas from coal mines, which is a priority area for China in tackling coal mine safety and climate change.

## **The Future**

Fortune Oil's strength lies in our relationship with joint venture partners and government in developing growth options and new projects. As a group we will continue to seek joint venture developments and strategic alliances both domestically and internationally and pursue growth options including M&A options to achieve scale, profit and materiality.

The strategic alliance with Arrow Energy International and the successful assimilation of teams demonstrate how Fortune Oil is able to establish and grow partnerships in China. This has been our hallmark since our first joint venture with Sinopec at Maoming 16 years ago, one that continues to thrive. Last year was our best on record in terms of volume sales, profit and strategic progress, despite the economic uncertainties that affected many other industries. Our new debt facilities provide significant funding potential while still maintaining low gearing.

This is my last year review after nine years as Chief Executive of the Company and. I am pleased to note that the Company has had an outstanding year with a record performance. I will remain as an Executive Director and am pleased to pass the Chief Executive role to Mr Tee Kiam Poon, in whom I have great confidence. With his 30 years of experience in BP and his relationships in the oil & gas industry I am sure he will take this Company to greater heights. I would like to take this opportunity to personally thank the Board, the management team, our customers, business partners and most importantly our shareholders for their support over the last nine years. I am sure that you will give Mr Tee the same support which you have given to me all these years and I am confident in the Company's future.

## **FINANCIAL REVIEW**

### **Revenue and Expenditure**

Revenues including the Group's share of jointly controlled entities increased by 11 per cent to £404 million (RMB4,326 million, US\$633 million) in 2009 from £365 million (RMB4,658 million, US\$673 million) in 2008. Group revenue excluding jointly controlled entities increased substantially in 2009 to £192.0 million from £132.1 million in 2008 due to substantial growth in natural gas sales and trading activities.

Net cash from operating activities was £25.7 million in 2009, compared with £9.2 million in 2008, an increase of 180 per cent. Before the gains on deemed disposal of interests in subsidiaries of £0.9 million (2008: £8.6 million), the operating profit was £19.3 million in 2009, compared with £9.0 million in 2008, an increase of 114 per cent. This increase is mainly due to a turnaround performance in the aviation refuelling business and continuing growth in the natural gas business.

The after tax net profit attributable to equity shareholders was £8.8 million (US\$13.9 million), a decrease of 2 per cent compared to £9.0 million (US\$16.6 million) in 2008. Earnings per share slightly decreased to 0.47 pence compared with 0.49 pence in 2008.

Administrative expenses increased by 12.2 per cent to £9.5 million in 2009. Major reasons for the increase include higher staff numbers associated with expansion and some exchange losses due to depreciation of the pound sterling during the year.

### **Capital expenditure and acquisitions**

Capital expenditure and acquisitions totalled £23.4 million (2008: £12.7 million), of which £19.8 million was capex and £3.6 million was in respect of an acquisition. During the year the Group acquired the remaining 26.1 per cent of Fortune Liulin Gas Company Limited from Molopo Energy Ltd. The increase in capital expenditure comprised expansion of the gas pipeline network, construction of a second LNG train at Puyang and overhaul of the SPM buoy. The Group had a net cash position of £7.2 million (US\$11.6 million) as at 31 December 2009, compared to £5.6 million (US\$8.2 million) in the previous year.

### **Financial Position**

The net assets of the Group at 31 December 2009 were £134.2 million (US\$215.8 million), compared with £136.6 million (US\$199.7 million) in 2008. The cash position remained strong and net cash as at 31 December 2009 was £7.2 million compared with £5.6 million as at 31 December 2008. The cash balance exceeded the outstanding Group bank loan balances and 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 £2.5 million in 2009, compared to £2.7 million in 2008. Group borrowings at 31 December 2009 totalled £48.5 million compared to £62.2 million at the end of 2008. The decrease was mainly due to repayment of £9.3 million of the Group term loan in 2009. The net gearing ratio (after deduction of cash) for the Group remained negative as of 31 December for both 2008 and 2009.

The Group's tax charge in 2009 was £2.8 million (2008: £1.5 million) representing an effective tax rate of 15.4 per cent compared with 9.6 per cent in 2008.

Since 2008 the corporate tax rate has been unified for both domestic and foreign companies at 25 per cent, being previously 15 per cent for foreign enterprises and 33 per cent for domestic corporations. The overall effective tax rate for Fortune Oil in the coming few years should gradually increase as most of the existing tax privileges fall away. In MKM the period for tax privilege has expired and from 2009 the tax rate has changed from 18 per cent to 20 per cent.

From 2008, dividends distributed overseas by foreign invested enterprises in China were subject to tax. The tax rate is 10 per cent if there is a tax treaty concluded between China and the country of which the investor is a tax resident. It is 5 per cent for Hong Kong companies, 10 per cent if share ownership is below 25 per cent. Dividends from Maoming Single Point Mooring, Bluesky and West Zhuhai Terminal to the holding companies in Hong Kong are subject to this new tax.

### **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 2008 to 2009, the RMB appreciated against the US\$ again by 1.3 per cent and the pound sterling depreciated by 15.0 per cent against the US\$, hence there was an overall 16.1 per cent 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 contrast to the average annual rates, the closing pound sterling exchange rate strengthened against the RMB, decreasing the net assets as measured in pound sterling, despite the profit after tax of £15.3 million. Net assets decreased from £136.6 million in 2008 to £134.2 million in 2009.

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 per cent-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.

### **Dividend Policy**

As the Group is in a stage of high growth with a good flow of acquisition opportunities, the policy of reinvesting profits rather than declaring cash dividends has remained in place.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

We confirm to the best of our knowledge:

1. The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair value of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. The management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

**Li Ching**  
Chief Executive Officer

**John Pexton**  
Deputy Chief Executive Officer

# FORTUNE OIL PLC

## Annual Financial Report Announcement

### Consolidated Income Statement for the Year Ended 31 December 2009

Amount in £'000	Note	2009	2008
Revenue including share of jointly controlled entities	2	403,745	364,722
Share of revenue of jointly controlled entities	2	(211,714)	(232,586)
<b>Group revenue</b>	2	<b>192,031</b>	132,136
Cost of sales		(157,013)	(101,660)
<b>Gross profit</b>		<b>35,018</b>	30,476
Distribution expenses		(12,000)	(11,192)
Administrative expenses		(9,522)	(8,483)
Share of results of jointly controlled entities		5,807	(1,800)
<b>Profit from operations</b>	2	<b>19,303</b>	9,001
Other gains	7	865	8,648
Finance costs		(2,532)	(2,722)
Investment revenue		421	749
<b>Profit before tax</b>		<b>18,057</b>	15,676
Income tax charge	3	(2,784)	(1,501)
<b>Profit for the year</b>		<b>15,273</b>	14,175
Attributable to:			
Owners of the parent		8,842	8,977
Non-controlling interests		6,431	5,198
		<b>15,273</b>	14,175
<b>Earnings per share</b>			
Basic	5	0.47	0.49
Diluted	5	0.47	0.49

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 2009

Amount in £'000	Note	2009	2008
<b>Profit for the year</b>		<b>15,273</b>	14,175
Exchange differences arising on translation of foreign operations		<b>(12,167)</b>	32,672
Other comprehensive income for the year		<b>(12,167)</b>	32,672
<b>Total comprehensive income for the year</b>		<b>3,106</b>	46,847
<b>Attributable to:</b>			
Owners of the parent		<b>1,268</b>	31,337
Non-controlling interests		<b>1,838</b>	15,510
		<b>3,106</b>	46,847

# FORTUNE OIL PLC

## Annual Financial Report Announcement

### Consolidated Statement of Financial Position as at 31 December 2009

Amount in £'000	Note	2009	2008
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment	6	94,126	90,086
Investment properties		-	2,017
Goodwill		6,224	7,935
Other intangible assets		6,130	4,002
Prepaid lease payments		4,744	5,185
Investments in jointly controlled entities		31,326	27,405
Available for sale investments		849	934
		<b>143,399</b>	137,564
<i>Current assets</i>			
Inventories		5,260	4,672
Trade and other receivables		14,817	18,937
Cash and cash equivalents		55,766	67,823
		<b>75,843</b>	91,432
<b>Total Assets</b>		<b>219,242</b>	228,996
<b>Liabilities</b>			
<i>Current liabilities</i>			
Borrowings		30,192	27,593
Trade and other payables		32,458	26,572
Current tax liabilities		1,026	1,032
		<b>63,676</b>	55,197
<i>Non-current liabilities</i>			
Borrowings		18,346	34,633
Deferred tax liabilities		3,024	2,556
		<b>21,370</b>	37,189
<b>Total Liabilities</b>		<b>85,046</b>	92,386
<b>Net Assets</b>		<b>134,196</b>	136,610
<b>Equity</b>			
<i>Capital and reserves</i>			
Ordinary shares		19,875	19,282
Treasury shares		(929)	(594)
Share premium		10,129	8,932
Foreign currency translation reserve		13,854	21,428
Retained earnings		47,157	37,618
Equity attributable to owners of the parent		90,086	86,666
Non-controlling interests		44,110	49,944
<b>Total Equity</b>		<b>134,196</b>	136,610

# FORTUNE OIL PLC

## Annual Financial Report Announcement

### Consolidated Cash Flow Statement for the Year Ended 31 December 2009

Amount in £'000	2009	2008
<b>Cash flows from operating activities</b>		
Profit for the year	15,273	14,175
Adjustments for:		
Share of post-tax results of jointly controlled entities	(5,807)	1,800
Taxation	2,784	1,501
Amortisation	409	230
Depreciation	7,134	5,080
Loss on disposal of property, plant and equipment	218	293
Fair value movement of investment properties	(362)	(17)
Gain on disposal of subsidiary undertakings	-	(317)
Gain on deemed disposal of subsidiaries	(865)	(8,648)
Share-based payments	500	350
Investment revenue	(421)	(749)
Finance costs	2,532	2,722
Increase in inventories	(1,016)	(2,700)
Decrease / (increase) in trade and other receivables	2,240	(5,737)
Increase in trade and other payables	8,316	5,082
Net cash from operations	30,935	13,065
Interest paid	(2,532)	(2,722)
Taxation paid	(2,719)	(1,175)
<b>Net cash from operating activities</b>	<b>25,684</b>	<b>9,168</b>
Interest received	421	749
Dividend received from jointly controlled entities	2,584	5,188
Payment for property, plant and equipment	(19,782)	(10,816)
Payment for other intangible assets	(4)	(2,833)
Payment for prepaid lease payments	(180)	-
Receipt from disposal of subsidiary undertakings	-	629
Payment for acquisition of subsidiary undertakings	-	(1,675)
Consideration paid on acquisition of additional interests in a subsidiary	(2,487)	-
Consideration for disposal of interest in a subsidiary	1,265	21,130
Receipt from disposal of property, plant and equipment	469	380
Receipt from disposal of investment properties	2,185	125
Investments in jointly controlled entities	(2,568)	(1,637)
Payment for available-for-sale investments	-	(251)
Loan to jointly controlled entities	(706)	(3,900)
<b>Net cash used in investing activities</b>	<b>(18,803)</b>	<b>7,089</b>

# FORTUNE OIL PLC

## Annual Financial Report Announcement

### Consolidated Cash Flow Statement for the Year Ended 31 December 2009 (cont.)

Amount in £'000	2009	2008
Proceeds from issue of share capital	546	9,829
Repayment of loans to non-controlling shareholders	18	(51)
Dividend paid to non-controlling shareholders	(3,406)	(3,305)
Net capital contribution to/(from) non-controlling shareholders	(2,063)	6,784
New bank loans raised	4,555	16,258
Repayment of borrowings	(12,451)	(14,920)
<b>Net cash (used in)/from financing activities</b>	<b>(12,801)</b>	<b>14,595</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(5,920)</b>	<b>30,852</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>67,823</b>	<b>27,263</b>
Cash flow effect of foreign exchange rate changes	(6,137)	9,708
<b>Cash and cash equivalents at end of the year</b>	<b>55,766</b>	<b>67,823</b>

## FORTUNE OIL PLC

### Annual Financial Report Announcement

#### Consolidated Statement of Changes in Equity for the Year Ended 31 December 2009

Amount in £'000	Issued capital		Share premium	Foreign	Retained earnings	Attributable	Non-	Total
	Ordinary share	Treasury share		translation reserve		to owners of the parent	controlling interests	
<b>Balance at 1 January 2008</b>	18,363	(594)	22	(932)	28,291	45,150	18,473	63,623
Profit for the year	-	-	-	-	8,977	8,977	5,198	14,175
Exchange differences arising on translation of foreign operations	-	-	-	22,360	-	22,360	10,312	32,672
<b>Total comprehensive income for the year</b>	-	-	-	22,360	8,977	31,337	15,510	46,847
Payment of dividends	-	-	-	-	-	-	(3,305)	(3,305)
Issue of share capital	919	-	8,910	-	-	9,829	-	9,829
Deemed disposal of interest in a subsidiary	-	-	-	-	-	-	(8,648)	(8,648)
Consideration for disposal of 15% interest in a subsidiary	-	-	-	-	-	-	21,130	21,130
Net capital contribution by non-controlling shareholders of a subsidiaries	-	-	-	-	-	-	6,784	6,784
Share-based payments	-	-	-	-	350	350	-	350
<b>Balance at 31 December 2008</b>	19,282	(594)	8,932	21,428	37,618	86,666	49,944	136,610

**FORTUNE OIL PLC**  
**Annual Financial Report Announcement**  
**Consolidated Statement of Changes in Equity for the Year Ended 31 December 2009 (cont.)**

Amount in £'000	Issued capital			Foreign currency translation reserve	Retained earnings	Attributable to owners of the parent	Non- controlling interests	Total
	Ordinary share	Treasury share	Share premium					
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)
<b>Total comprehensive income for the year</b>	-	-	-	(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 to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	(2,063)	(2,063)
Share-based payments	-	-	-	-	500	500	-	500
<b>Balance at 31 December 2009</b>	<b>19,875</b>	<b>(929)</b>	<b>10,129</b>	<b>13,854</b>	<b>47,157</b>	<b>90,086</b>	<b>44,110</b>	<b>134,196</b>

Included in the retained earnings is £2,053,000 (2008: £2,008,000) Reserve Fund which is not distributable to shareholders.

# Fortune Oil PLC

## Notes to financial information in respect of year ended 31 December 2009

### 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 2009 or 2008, but is derived from those accounts. Statutory account for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered before 30 June 2010. The auditors have reported on those accounts; their reports were unqualified, did not draw attention 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 or equivalent preceding legislation.

#### 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 2009. 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 on 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 2009.

### 2. Segmental Reporting

The Group has adopted IFRS 8 Operating Segments (effective on 1 January 2009) 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. In contrast, the predecessor Standard (IAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed.

In prior years, segment information reported externally was analysed on the basis of major business divisions of the Group. However, information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is more specifically detailed into each business segment by treating the Group's overheads as separate item. The principal business segments are constant with minor changes on names and office overheads segregated. The Group has reclassified 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. Amounts reported for the prior period have been restated to conform to the requirements of IFRS 8 as required by IAS 34.

**(a) Operating segments**

Amount in £'000	Natural Gas		Single point mooring facility		Aviation Refuelling		Trading	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenue including share of jointly controlled entities	<b>73,846</b>	48,762	<b>14,142</b>	12,094	<b>199,438</b>	221,325	<b>107,126</b>	73,969
Share of revenue of jointly controlled entities	<b>(3,083)</b>	(2,689)	-	-	<b>(199,438)</b>	(221,325)	-	-
<b>Group revenue</b>	<b>70,763</b>	46,073	<b>14,142</b>	12,094	-	-	<b>107,126</b>	73,969
<b>Profit from operations (including share of results of jointly controlled entities)</b>	<b>8,781</b>	6,435	<b>5,732</b>	5,034	<b>4,167</b>	(3,004)	<b>1,290</b>	1,192
Office overheads *								
<b>Operating profit, net of overheads</b>								
Other gains	<b>865</b>	-	-	-	-	-	-	-
Finance costs								
Investment revenue								
<b>Profit before taxation</b>								
Taxation								
<b>Profit for the year</b>								
<b>Attributable to</b>								
Owners of the parent								
Non-controlling interests								
Capital additions	<b>16,623</b>	9,159	<b>3,116</b>	1,496	-	-	<b>43</b>	161
Depreciation	<b>4,275</b>	2,813	<b>2,792</b>	2,160	<b>8</b>	7	<b>60</b>	100
<b>Net assets: by class of business</b>								
Assets								
Segment assets	<b>156,311</b>	162,409	<b>17,840</b>	21,148	<b>16,047</b>	15,141	<b>27,940</b>	27,555
Unallocated assets								
Consolidated total assets								
Liabilities								
Segment liabilities	<b>(48,238)</b>	(43,038)	<b>(352)</b>	(846)	<b>(43)</b>	(534)	<b>(9,565)</b>	(8,807)
Unallocated liabilities ***								
Consolidated total liabilities								

Amount in £'000	Products Terminal		Others**		Group	
	2009	2008	2009	2008	2009	2008
Revenue including share of jointly controlled entities	2,473	1,787	6,720	6,785	403,745	364,722
Share of revenue of jointly controlled entities	(2,473)	(1,787)	(6,720)	(6,785)	(211,714)	(232,586)
<b>Group revenue</b>	-	-	-	-	<b>192,031</b>	132,136
<b>Profit from operations (including share of results of jointly controlled entities)</b>	<b>1,006</b>	658	<b>465</b>	180	<b>21,441</b>	10,495
Office overheads *					(2,138)	(1,494)
<b>Operating profit, net of overheads</b>					<b>19,303</b>	9,001
Other gains	-	-	-	8,648	865	8,648
Finance costs					(2,532)	(2,722)
Investment revenue					421	749
<b>Profit before taxation</b>					<b>18,057</b>	15,676
Taxation					(2,784)	(1,501)
<b>Profit for the year</b>					<b>15,273</b>	14,175
<b>Attributable to</b>						
Owners of the parent					8,842	8,977
Non-controlling interests					6,431	5,198
Capital additions	-	-	-	-	19,782	10,816
Depreciation	-	-	-	-	7,135	5,080
<b>Net assets: by class of business</b>						
Assets						
Segment assets	457	1,143	(338)	(409)	218,257	226,987
Unallocated assets					985	2,009
Consolidated total assets					<b>219,242</b>	228,996
Liabilities						
Segment liabilities	-	-	-	-	(58,198)	(53,225)
Unallocated liabilities ***					(26,848)	(39,161)
Consolidated total liabilities					<b>(85,046)</b>	(92,386)
					<b>134,196</b>	136,610

\* Includes overheads in UK/HK/PRC offices.

\*\* Others include retail and distribution.

\*\*\* Bank loan and dividend withholding tax be unallocated among segments.

## b) Geographical operations

With the exception of operating loss of £656,000 (2008: £926,000) 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.

## c) Analysis of group revenue

Amount in £'000	2009	2008
Sales of goods	182,273	124,397
Income from construction contracts	7,531	4,929
Rental income	1,419	1,084
Others	808	1,726
	<b>192,031</b>	132,136

### 3. Taxation

The taxation charge for the year is analysed below:

Amount in £'000	2009	2008
<b>Withholding tax</b>		
Group withholding tax	398	160
Total withholding tax	398	160
<b>Current tax</b>		
Group current tax		
UK tax	-	-
Foreign tax	2,794	1,408
Total current tax	2,794	1,408
<b>Deferred tax</b>		
Group deferred tax	(408)	(67)
Total deferred tax	(408)	(67)
Tax on profit on ordinary activities	2,784	1,501

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

Amount in £'000	2009	2008
Profit on ordinary activities before taxation	18,057	15,676
Theoretical tax at PRC corporation tax rate 25% (2008: 25%)	4,514	3,919
Effects of:		
– Share of results of jointly controlled entities	(1,452)	450
– Nil or lower tax in PRC	(1,104)	(1,760)
– Tax losses not recognized	294	264
– Utilization of tax losses credit not previously recognized	(38)	(197)
– Other expenditure that is not tax deductible	4,428	1,760
– Income not taxable	(4,256)	(3,095)
– Withholding tax on dividend income	398	160
Total tax	2,784	1,501

The above reconciliation uses a 25% (2008: 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 2009, there are four PRC subsidiaries entitled the above tax holiday. Two of the subsidiaries are in the last year of tax exemption and the remaining two are in the second 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 were not paid in any of the periods reported upon and no dividend is proposed.

### 5. Earnings per share

Earnings per share have been calculated on the earnings activities after taxation and non-controlling interests of £8,842,000 (2008: profit of £8,977,000)

	2009		2008	
	No.		No.	
	'000	pence	'000	pence
Basic	1,873,799	0.47	1,827,321	0.49
Share option adjustment	3,911		7,004	-
Diluted	1,877,710	0.47	1,834,325	0.49

## 6. Property, plant and equipment

Amount in £'000	Assets in the course of construction	Motor vehicles, fixtures & fittings	Single point mooring buoy	Short Leasehold property & improvements	LPG tanks & facilities	Pipelines	Coal Bed Methane assets	Total
<b>Cost</b>								
<b>At 1 January 2008</b>	929	6,261	21,354	5,525	2,277	25,687	-	62,033
Exchange differences	4,553	3,303	9,556	3,153	906	12,008	-	33,479
Acquisition	12,794	129	-	489	-	37	-	13,449
Transfer from other intangible assets	-	-	-	-	-	-	6,636	6,636
Additions	6,259	2,300	1,464	212	1	580	-	10,816
Disposal of subsidiaries	-	(916)	-	(1,577)	(3,184)	-	-	(5,677)
Other disposals	(17)	(119)	(842)	(110)	-	(453)	-	(1,541)
Reclassification	(17,633)	(540)	-	63	-	18,110	-	-
<b>At 31 December 2008</b>	<b>6,885</b>	<b>10,418</b>	<b>31,532</b>	<b>7,755</b>	<b>-</b>	<b>55,969</b>	<b>6,636</b>	<b>119,195</b>
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
Other disposals	-	(113)	(1,368)	(7)	-	(466)	-	(1,954)
Reclassification	(11,561)	726	-	871	-	9,964	-	-
<b>At 31 December 2009</b>	<b>5,829</b>	<b>10,707</b>	<b>29,974</b>	<b>8,473</b>	<b>-</b>	<b>60,670</b>	<b>9,397</b>	<b>125,050</b>
<b>Depreciation</b>								
<b>At 1 January 2008</b>	-	2,025	11,485	1,089	2,246	1,905	-	18,750
Exchange differences	-	1,552	5,703	1,031	851	1,740	-	10,877
Charge for the year	12	783	2,082	284	6	1,913	-	5,080
Disposal of subsidiaries	-	(697)	-	(1,007)	(3,103)	-	-	(4,807)
Reclassification	-	(82)	-	(18)	-	100	-	-
Other disposals	-	(102)	(436)	(7)	-	(246)	-	(791)
<b>At 31 December 2008</b>	<b>12</b>	<b>3,479</b>	<b>18,834</b>	<b>1,372</b>	<b>-</b>	<b>5,412</b>	<b>-</b>	<b>29,109</b>

Exchange differences	1	(439)	(1,998)	(232)	-	(1,379)	-	(4,047)
Charge for the year	-	1,042	2,696	333	-	3,063	-	7,134
Reclassification	-	(142)	-	(15)	-	157	-	-
Other disposals	(13)	(88)	(1,103)	(4)	-	(64)	-	(1,272)
<b>At 31 December 2009</b>	<b>-</b>	<b>3,852</b>	<b>18,429</b>	<b>1,454</b>	<b>-</b>	<b>7,189</b>	<b>-</b>	<b>30,924</b>
<b>Net book value</b>								
<b>At 31 December 2009</b>	<b>5,829</b>	<b>6,855</b>	<b>11,545</b>	<b>7,019</b>	<b>-</b>	<b>53,481</b>	<b>9,397</b>	<b>94,126</b>
<b>At 31 December 2008</b>	<b>6,873</b>	<b>6,939</b>	<b>12,698</b>	<b>6,383</b>	<b>-</b>	<b>50,557</b>	<b>6,636</b>	<b>90,086</b>

## 7. Deemed Disposal of Interests in a Subsidiary

During the year, Molopo Australia Limited (“Molopo”), previous shareholder of Fortune Liulin Gas Company Limited (“FLG”), elected not to fund the cash call for ongoing exploration activities due to its declared focus on assets in other regions. Under standard industry practice Molopo's interest in FLG was diluted from 40% to 26.1%. On 20 November 2009, Fortune Oil acquired Molopo's 26.1% interest in FLG through its subsidiary Fortune Green Energy Limited (“FGE”) for consideration of £3.7 million whereupon FLG became wholly owned by FGE (an 85% subsidiary). The amount of goodwill arising as a result of the additional acquisition was £0.98 million in aggregate.

On 18 December 2009, FGE signed two Sale and Purchase Agreements and a Subscription and Shareholders' Agreement with Arrow Energy (FLG) Pte Ltd (“Arrow”). The first of these agreement included the unconditional sale of 3.7% of FLG to Arrow for consideration of £1.6 million (£1.3 million after expenses), resulting in a gain of £0.86 million. The parent therefore held a direct interest of 96.3% in FLG at 31 December 2009 (Group interest 81.8%).

The first Agreement with Arrow also included the sale of an additional 5.2% interest in FLG, subject to, inter alia, the renewal of the Liulin PSC. The Group received \$3.5 million (£2.2 million) in respect of this transaction however as the conditions in the Agreement were not satisfied by year end, no sale was recognised during the year.

The second Agreement is for the sale of an additional 26.1% interest in FGE to Arrow, conditional on the renewal of the Liulin PSC. An initial deposit of \$2 million (£1.2 million) was received pre year-end, with a balancing payment of \$5.3 million (£3.3 million) payable upon renewal of the PSC. As the conditions in the Agreement were not satisfied by year end, no sale was recognised during the year.

As described in Note 9, the Liulin PSC was renewed 25 March 2010, and as such the parent's direct interest in FLG has been reduced to 65% (Group interest 50.5%) in line with the Agreements outlined above.

The first Agreement also included three options for Arrow to acquire additional interests in FLG. The options are sequentially exercisable and conditional on post-balance sheet date events including the renewal of the PSC. If all options were exercised, the parent's direct interest in FGE would be further reduced by 40%. The fair value of the options at 31 December 2009 was £0.8m.

## 8. 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	2009	2008
Loans from equity minority interests to subsidiaries	1	(2,959)	(3,237)
Other loans from major shareholders	2	(3,907)	(4,299)
Interest paid and payable to major shareholders	2	48	51
Trade account receivable from minority shareholders	3	425	1,652
Shareholder loans to / (from) jointly controlled entities	4	5,281	5,154
Sales of goods to Vitol Asia	5	-	3,494
Purchase of goods from Vitol Asia	5	2,747	123
Purchase of goods from jointly controlled entities	5	1,801	489
Current account with Vitol Energy (Bermuda)	5	(437)	(481)
Current account with jointly controlled entities	5	(221)	-

### Sub notes

- The loan £2,960,000 (2008:£3,237,000) comprised loans from the non-controlling shareholders of Shuozhou Jingshuo Natural Gas Limited, Beijing Fuhua Dadi Gas Company Limited (DADI), Luquan Fu Xin Gas Company Limited, Shuozhou Jingping Natural Gas Limited and Shuozhou Fu Hua Natural Gas Limited. Except for 2009 £1,480,000 (2008: £1,440,000) from non-controlling shareholders of DADI which is interest bearing of range at 5.841% p.a. (2008: 6.138% to 8.217% p.a.), the loans are unsecured, interest free and without fixed payment terms.*
- Other loans at 31 December 2009 were from the major shareholder First Level Holdings Limited (FLHL) £3,907,000 (2008: £4,299,000). The amount due is unsecured, interest bearing of LIBOR plus 2% and without fixed payment terms. The interest paid and payable to FLHL was £48,000 (2008: £51,000). The interest owed at 31 December 2009 to FLHL was £47,000 (2008: £64,000).*
- 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 £13,149,000 (2008: £10,912,000). £425,000 was owed at 31 December 2009 (2008: £1,652,000).*
- 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. £5,289,000 (2008: £5,019,000) was due from Tianjin Tianhui Natural Gas Limited, Shangdong Green Energy Gas Company Limited and Jining Qufu New Fu Hong Gas Limited. The remaining balances relate to a number of other jointly controlled entities.*
- Vitol Energy (Bermuda) Limited is a shareholder of the Company. Sales from a Group's subsidiary, Fortune Oil Holdings Limited, to Vitol Asia Pte Ltd amounted to £Nil (2008: £3,494,000). Purchase from Vitol Asia Pte Ltd to a Group's subsidiary, Fortune Oil Holdings Limited amounted to £2,474,000 (2008: £123,000) and purchase from jointly controlled entity - Shandong Green Energy Gas Company Limited and Jining Qufu New Fu Hong Gas Limited to Group's subsidiaries, Henan Fortune Green Energy Development Company and Qufu Fu Hua Gas Company Limited amounted to £717,000 and £1,085,000 (2008: £489,000 and £Nil) respectively. Current account due to Vitol Energy (Bermuda) Limited amounted to £437,000 (2008: £81,000). Current account due to jointly controlled entities, Jining Qufu New Hong Gas Company Limited and Shandong Green Energy Gas Company Limited, amounted to £157,000 and £64,000 (2008: Nil) respectively.*

## **9. Subsequent Events**

### ***Production Sharing Contract Extension***

In March 2010, an extension of the exploration period for the Production Sharing Contract ("PSC") for the Liulin CBM block was approved by the Ministry of Commerce for a further two years to 29 March 2012.

In accordance with the agreement signed on 18 December 2009, Arrow Energy International Pte Ltd ("Arrow") have paid a further £ 3.3 million (US\$5.3 million) to Fortune Green Energy Limited ("FGE") and now holds a 35 per cent interest in Fortune Liulin Gas Company Limited ("FLG"). Arrow paid a total of £5.0 million (US\$8.0 million) to FGE and FLG in December 2009.

### ***New Loan Facility Signed***

On 14 April 2010, Fortune Oil PRC Holdings Limited signed a £ 52 million (or US\$80 million) loan agreement with Standard Chartered Bank (Hong Kong) Limited, as facility coordinator and agent bank, and a total of 10 other international and regional banks.

The facility is a dual currency term loan (in US dollars and Hong Kong dollars) with a term of 3 years and a margin of 2.7 per cent above LIBOR or HIBOR. The facility is guaranteed by Fortune Oil PLC, and the loan purpose is to refinance the previous loan facility, which matured on 26 April 2010, and for general working capital requirements of the Group.

- 10.** 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 Operational 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 in the Annual Report and Accounts and notes to the 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.

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 will also provide general working capital and funding for the Group. The facility size is US\$ 80 million (£52 million) and the loan matures in April 2013.

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

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.

## **PRINCIPLE RISKS AND UNCERTAINTIES**

The business of the Fortune Oil Group is focused on the distribution in mainland China of hydrocarbon fuels with recent expansion into coal bed methane, and it is subject to a variety of business risks. Outlined below is a description of the principal risk factors that may affect the Group's business. Any of the 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.

### **General Business Risks**

#### *Country risk*

The Group's principal assets and operations are located in China where there may be risks over which the Group has no or limited control. These include economic and social risks; political change; currency non-convertibility or instability; and changes in laws affecting foreign ownership, government participation, taxation, working conditions and exchange controls as well as government control over domestic production.

#### *Regulatory approvals*

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. Approvals might not be renewed upon expiry.

#### *Health, Safety and the Environment (HSE)*

The Group operates facilities in the oil and gas industry wherein 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. The Group's HSE policies entail observing all local and national legal and regulatory requirements. Safety and environmental regulations in China are likely to evolve in a manner that will require stricter standards and enforcement measures being implemented, increases in fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies, their directors and employees.

#### *Relationship risks*

Many of the Group's individual businesses are operated via joint ventures. The maintenance of a good relationship with the Group's partners is necessary for the success of the joint ventures. In addition, the maintenance of good relations with local and national government and with regulatory agencies is vital for the future development of the Group's business.

#### *Attraction and retention of key employees*

The Group relies heavily on a small number of key individuals, in particular the Executive Directors, for the operation of its day-to-day activities and implementation of its growth strategy. In addition, personal connections and relationships of its key management are important to the conduct of its business.

#### *Speed of development*

The need to obtain national and local government consents, obtain appropriate equipment and services and to build the necessary infrastructure may extend the completion of projects and delay the start of their income production beyond that planned.

### *Current and future financing*

The Group's business necessarily involves significant capital expenditure and for which the Group may need to seek further external debt or equity financing. There is no guarantee that such additional funding will be available on acceptable terms at the relevant time. The Group term loan facilities were recently refinanced and extended. This facility includes standard restrictive covenants, as would any additional debt financing, which may limit or affect the Group's operating flexibility.

### *Uninsured risks*

Substantial damages may be claimed against the Group due to events arising from the nature of its operations and omissions of sub-contractors. Any indemnities the Group may receive from such sub-contractors may be difficult to enforce if they lack adequate resources. The Group considers that the extent of its insurance cover is reasonable based on the costs of cover and the risks associated with its business and industry practice.

### *Foreign exchange risk*

The revenues and expenses of the Group are denominated primarily in China's renminbi. Some expenses are denominated in pound sterling and in Hong Kong dollar, which is linked to the US dollar. The Group has no current plans to enter into ongoing currency hedging arrangements. The Company reports in pounds sterling and the results of the Group are subject to foreign exchange risk.

### *Liquidity risk*

The Group primarily borrows in United States dollars, Hong Kong dollars and China renminbi and has raised equity funding denominated in pound sterling. Cash balances are maintained in a mix of currencies as determined by the forecast cash expenditure needs of various parts of the Group. The mismatch between the liabilities, currencies and cash flow in each part of the Group creates potential liquidity risk.

### *Commodity price risk*

International oil and gas prices can fluctuate widely and are affected by numerous factors over which the Group has no control. In addition the prices of most fuels in China are fixed, capped or strongly influenced by government, based on factors such as international pricing, domestic economic growth, consumption patterns and the supply locations, all of which are outside the control of the Group. The government may make immediate changes to such domestic prices without prior notice, particularly for petroleum transportation fuels: this may impact the value of inventory held by Group companies and create a mis-match with supply costs or sales prices.

## **Fuel Distribution Risk**

In addition to the General Business Risks detailed above the Board considers that the following specific risks apply to the fuel distribution segment of the Group's business, which currently incorporates storage and transportation of liquid fuels and natural gas and the processing of gas for compression and liquefaction:

### *Energy demand*

The level and structure of energy demand is driven by a number of factors beyond the Group's control, including: local and national economic factors; the pricing and availability of competing suppliers and alternative fuels; and local government directives.

### *Technical risk*

The storage and transportation of hydrocarbons and the processing of gas require a high level of technical expertise in the design, development and operation of the relevant facilities. There can be

no assurance that the facilities when in operation will be able to deliver the quantities for which they were planned or that the volume can be maintained under all operating conditions. In particular the Group has begun the construction and operation of small scale plants for production of LNG, a technology that has existed for some time but where there remains implementation risk.

#### *Physical security*

A facility for the storage or transportation of hydrocarbons is required to maintain physical security, which may be breached by accident, earthquake or deliberate activity. Insurance in respect of lost product and environmental damage may cover some of these events but may not cover all of them.

#### *Gas availability*

Whilst the Group is seeking to produce its own independent supplies of gas, it is and will remain reliant on third party suppliers for gas, being principally State-controlled companies. There can be no assurance that third parties will continue to supply gas in the quantities Fortune Oil requires for its current and future needs.

### **Exploration & Production Risks**

In addition to the General Business Risks detailed above the Board considers the following specific risks apply to the upstream gas segment of the Group's business:

#### *General exploration, development and production risks*

Exploration and production activities by their nature involve significant risks. Risks such as delays in the construction and commissioning of gas collection networks or other technical difficulties, lack of access to key infrastructure, adverse weather conditions (such as winter snows), environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, land use and access restrictions, unusual or unexpected geological formations, explosions and other acts of nature are inherent to the business. The occurrence of any of these incidents can result in the Group's current or future project target dates for drilling or production being delayed or interrupted, increased capital expenditure and production costs.

#### *Gas reserves or resources*

Reserves and resource estimates have been prepared by independent consultants in accordance with the definitions and guidelines of the 2007 Petroleum Resources Management System approved by the Society of Petroleum Engineers with separate assessments in accordance with Chinese standards. Estimating the quantity of reserves and resources and projecting future rates of production is a subjective process and has inherent uncertainties, including factors beyond Fortune Oil's control. Reserve and resource estimates are based on production, prices, costs, ownership, geophysical, geological and engineering data and other information collated by Fortune Oil. The estimates may prove to be incorrect after further drilling, testing and production. Forward-looking statements contained herein concerning the Group's reserves and resources definitions should not be unduly relied upon. Certain categories of reserves and resources (such as Prospective and Contingent Resources) are inherently riskier than certain other categories (such as Proved Reserves).

#### *Production Sharing Contract*

The Group's PSC includes obligations such as a minimum work programme. Failure to comply with such obligations, whether inadvertent or otherwise, may lead to fines, penalties, restrictions and withdrawal of PSC rights. The Liulin block PSC was recently extended but there can be no guarantee that the PSC or related permits will be renewed or extended by government in future.