

27 APRIL 2006

FORTUNE OIL PLC  
("Fortune Oil" or "the Company")



Announcement of Preliminary Results for Year Ended 31 December 2005

*Fortune Oil invests in and manages oil and gas infrastructure projects in China. Fortune Oil is quoted on the full list of the London Stock Exchange and has its headquarters in Hong Kong.*

KEY POINTS

- Turnover increased by 21 per cent to £143.1 million (2004: £118.1 million).
- Retained profit (after exceptionals) increased to £2.8 million (2004: £2.6 million).
- Excluding the impact of an exceptional credit in 2004 and an exceptional debit in 2005, underlying retained profit increased by 87 per cent from £1.8 million to £3.4 million.
- Earnings per share on retained profit of 0.16 pence (2004: 0.17 pence).
- Bluesky aviation refuelling continues to perform strongly, increasing sales volume by 20 per cent and net profit by 68 per cent.
- Installed replacement SPM buoy, increasing the efficiency of crude oil delivery to the Maoming refinery.
- Total natural gas sales volume increased by 42 per cent to 34 million cubic metres (2004: 24 million cubic metres). Fortune Oil now operates 468 km of gas distribution pipelines with 71,600 contracted customers. New developments include the supply of gas to Tianjin suburbs.
- Post 2005 investment in a Coal Bed Methane block at Liulin, Shanxi Province.

Mr Qian Benyuan, Chairman of Fortune Oil, commented:

***"Fortune Oil performed strongly in 2005. After discounting the impact of exceptional items in both years, net profits almost doubled. This reflects the continued underlying growth in the Chinese economy and in the demand for energy, a trend we expect to continue. The diversity of our investment portfolio across the oil and gas industry provides a hedge against supply constraints and other short term issues. Our recent entry into Coal Bed Methane demonstrates our ability to execute such a strategy. We are confident of the opportunities for growth in energy and infrastructure in China."***

ENQUIRIES:

**Fortune Oil PLC**

John Pexton - Deputy Chief Executive

Tel: 00 852 2583 3113 (Hong Kong)

**Pelham Public Relations**

Archie Berens

Tel: 020 7743 6679 or 07802 442 486

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**Announcement of Preliminary Results for Year Ended 31 December 2005**

**CHAIRMAN’S STATEMENT**

**Introduction**

In 2005 China maintained its position on the centre stage of the world’s economy: China’s GDP overtook that of France, Chinese companies began to make large overseas acquisitions and the Renminbi–US dollar peg was relaxed. China now has the second largest energy industry in the world after USA. Fortune Oil remains almost unique as an international company operating both oil and gas infrastructure ventures in China.

**Results**

China’s demand for oil and gas continues to grow strongly. The Bluesky business continued to show strong volume growth and posted a 68 per cent rise in net profit. The gas business made a small operating profit on the back of a 42 per cent increase in sales volume. Some of the national pricing and supply-demand tensions impacted our businesses in 2005, resulting in temporary supply disruptions for the Maoming SPM and West Zhuhai Oil Products Terminal as well as the Beijing gas business. However, there was an increased in overall demand and the Group’s revenues (including share of joint ventures) were £143 million, a 21 per cent increase over 2004. The profit attributable to equity shareholders after exceptionals was £2.8 million compared with £2.6 million in 2004, but there was a strong increase in underlying profit before exceptionals.

These results are the first produced by the Company under International Financial Reporting Standards (IFRS). The Company continues to meet the changing reporting guidelines and to provide more information to shareholders. We have also made strides in improving our compliance with corporate governance recommendations.

**Directors**

In 2005 we were pleased to strengthen the Board through the appointment of Mr. John Pexton and Mr. Gong Min as Executive Directors. Mr Bruce McGowan has recently retired from the Board after six years of devoted service but we are pleased that he will remain as a consultant to the Company. Our long-standing Non-Executive Directors, Mr. Li De, Mr. Feng Xuechang and Mr. Yang Chunshu will also be retiring at the forthcoming AGM and we would like to thank them all for their invaluable contributions over the years.

**Recent Developments**

In recent months there have been two major developments for the Group. Firstly we have agreed, subject to shareholder approval, to acquire the interests held by Vitol in the West Zhuhai Oil Products Terminal, which also required us to purchase the interests held by Vitol in Fu Duo. The terminal at West Zhuhai is one of the largest independent distribution facilities for refined products in southern China and a unique asset for future growth.

Secondly, we have committed to invest in the development of coal bed methane (CBM). China has vast untapped reserves of CBM in its coal fields and its extraction is critical for the community, not only as an energy resource but to reduce long term global warming and coal mine accidents. It is also an exciting opportunity for us to combine CBM with our existing gas operations to create an integrated natural gas business. Fortune Oil is uniquely positioned through its PRC connections and joint venture partners to bring to bear the necessary experience to develop a CBM business in Shanxi Province. We believe that, as both the oil and gas markets open further in China, these new investments are well-timed to provide future growth.

## **Outlook**

Last year the Company's performance improved in spite of various supply disruptions. In 2006 we are investing for future growth, particularly in terminals and CBM projects. Security of energy supply is becoming increasingly important for China as it endeavours to sustain economic growth. Since China is a net importer of energy, domestic prices for both gas and transportation fuels will eventually have to rise towards international levels. We believe that the private sector will be encouraged to expand, albeit with appropriate regulation. With our developing portfolio of investments and unique market position, these developments will be positive for the Company and we remain confident of sustained growth.

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**Announcement of Preliminary Results for Year Ended 31 December 2005**

**CHIEF EXECUTIVE'S REVIEW**

**Overview**

In 2005 revenues including the Group's share of joint ventures were £143 million, a 21 per cent increase over 2004 (£118 million). The profit attributable to equity shareholders increased to £2.8 million from £2.6 million in 2004. The underlying retained profit rose by 87 per cent from £1.8 million to £3.4 million before the exceptional credits in 2004 for creditor write-backs and the exceptional debits in 2005 for the disposal of the first buoy at Maoming SPM. Over the last three years, the underlying retained profit (i.e. profit after tax and before exceptionals) has increased 48 per cent per year on average, exceeding our target growth of 15 per cent per year.

Earnings per share were 0.16 pence in 2005, marginally lower than the 0.17 pence for 2004, principally as a result of the full impact of the conversion of shareholder loans to shares at the end of 2004. Net assets increased by 19 per cent to £50.7 million principally as a result of continued profits and exchange gains arising in the year.

The Bluesky Aviation Refuelling business achieved a 68 per cent increase in net profit, due to higher sales volumes and higher margin. However net profit for the Maoming SPM fell 26 per cent, due to a temporary cutback at Sinopec's Maoming refinery in the second half of the year and an exceptional loss on disposal of the first buoy. The natural gas business achieved a small operating profit in 2005 during which we successfully commissioned one of the largest compressed natural gas stations in Beijing.

**China Review**

Last year was a transition period for China's energy industry, in contrast to the surging growth experienced in 2004. In the oil sector the high disparity between domestic and international prices for refined products led to losses for oil refining companies and temporary disruptions in product supply. These disruptions caused small reductions in volume throughput for the Maoming SPM and the West Zhuhai terminal. In the gas sector inadequate supplies forced us to supply LPG instead of natural gas to some customers in early 2005, and the consequential losses partially offset the later profits from the Tongzhou CNG station. These problems are not expected to recur this year.

However, overall energy demand in China is continuing its rapid growth and GDP has grown 10 per cent per year since 2003. This GDP growth leads to greater demand for travel as well as power, hence the 19 per cent rise in jet fuel sales at Bluesky in 2005. The combination of higher energy prices, surging demand and pressures (both internal and international) to liberalise markets create a dynamic environment. Government policies are aimed at maintaining the sustainability of China's overall economic growth: while individual sectors may have temporary supply disruptions or pricing problems the overall trend remains strongly upward.

## Operations

The **Bluesky** aviation refuelling business (South China Bluesky Aviation Oil Company) continued its strong growth in volume sales and profit in 2005. Volume sales rose 20 per cent to 1.3 million tonnes, of which approximately 50 per cent of which related to the new Guangzhou Baiyun International Airport. Net profit increased by 68 per cent to £9.6 million (US\$17.4 million) from £5.7 million (US\$10.5 million) in 2004, due to the higher volume sales and a higher operating margin. As the growth in demand has exceeded all expectations, investments in new refuelling facilities are now being planned for the major airports (Guangzhou, Changsha, Wuhan and Zhengzhou). In particular, in 2005 Federal Express announced the relocation of their Asia hub to Guangzhou and Bluesky will provide jet fuel to this new terminal from 2008. Bluesky continues to be a monopoly supplier at its airport locations but tariffs are subject to government regulation. From April 2006 the tariff for domestic flights is being decreased at Guangzhou and increased at the regional airports, but the impact on operating margin is not yet clear.

At the **Maoming SPM** (Maoming King Ming Petroleum, or MKM joint venture), a replacement mooring buoy was successfully commissioned in April 2005 and has improved the efficiency of operation. However in late 2005 the losses being incurred by Chinese refiners as a result of government pricing policies caused Sinopec to reduce imports of crude oil at Maoming. As a result the total throughput for MKM fell 6 per cent in 2005 to 9.7 million tonnes. Net profit decreased by 26 per cent to £4.2 million (US\$7.6 million) from £5.7 million (US\$10.4 million) in 2004. This was due to the lower throughput and to a once-off loss on disposal of the old buoy of £0.6 million (US\$1.1 million). Following agreements with the government, the Maoming refinery is now operating at full capacity. MKM is now modifying the SPM facilities to handle the new class of 300,000 dwt double-hulled tankers, thereby raising the SPM capacity beyond 12 million tonnes per year.

The **West Zhuhai Oil Products Terminal** joint venture was also affected by supply disruptions in 2005, with a marginal decrease in throughput and trans-shipment volumes to 2.2 million tonnes. Net profit was £1.9 million (US\$3.5 million). PetroChina maintains a 45 per cent share in the terminal and is the principal customer for distribution of diesel and gasoline. However, we envisage that third party usage will expand as the west side of the Pearl River develops and WTO regulations allow non-state companies to import products. For that reason we recently agreed to acquire Vitol's interests in the terminal which, subject to shareholder approval, will increase our shareholding to 37 per cent. As part of this acquisition we also agreed to purchase the Vitol Group's interests in the **Fu Duo LPG** subsidiary, which remains at best a break-even business.

Our independent **Trading** business enabled us to guarantee supplies of gasoline and diesel to our Beijing retail stations in 2005, in contrast to many other private retailers. While the domestic trading activities continue to be low margin, we are now increasing our customer base and low-risk cross-border trading of deregulated refined products, so as to prepare for further market liberalisation over the coming year.

The **Natural Gas** business increased gas sales by 42 per cent to 34 million cubic metres (m<sup>3</sup>) and made a small operating profit in 2005, its second year of business. The Tongzhou Compressed Natural Gas (CNG) station was successfully commissioned by Fu Hua, our joint venture with a PetroChina affiliate (80 per cent Fortune Oil share). This is now one of the largest suppliers of CNG in Beijing to bus companies, factories and city gas companies. The gas sales from Tongzhou in the first quarter of 2006 totalled 13 million m<sup>3</sup>, the same as Fu Hua's total sales in Beijing for 2005, which indicates a considerably improving performance for our gas business.

The Company's city gas companies now have 71,600 customers, most being recently constructed residential apartments, and we now operate 468 km of gas pipelines. However, the China gas business is still at an early stage of development with low penetration rates, such that our existing infrastructure has substantial growth opportunities. For example we recently agreed to supply gas to industrial and residential suburbs at Tianjin in conjunction with Tianjin Gas Company, which will exploit spare capacity in our Tianhui spur pipeline.

The gas shortages we experienced in early 2005 were not repeated in the recent winter and the new Shaanxi-Beijing pipelines have sufficient capacity to meet many years of demand increases in the Beijing region. However, the Company needs to ensure independent reliable sources of supply for its future gas businesses. This was the principal reason for our decision to seek investments in CBM development, as described below.

### **Our Community**

Fortune Oil has managed oil and gas facilities in China for over 13 years. We have a proven track record of reliable and safe operation, with no fatalities in any of our invested businesses. These operations now employ 1200 staff, of whom 99 per cent are PRC citizens, and they are key businesses in their respective communities. We are proud of our role in introducing cleaner fuels and new standards in China.

The Company's HSE targets include minimising accidental release of hydrocarbons from all our operating companies to the environment. We are particularly concerned about any release of methane, which is a greenhouse gas, and no measurable releases were reported for 2005. The Group's operations conduct regular safety training seminars for the staff and for the community and there were 6 Lost Time Injuries in all the Group's operations in 2005.

### **Post Balance Sheet Events**

In February 2006 the Company announced its intention to acquire the combined interests held by the Vitol Group in the West Zhuhai terminal and Fu Duo LPG business, subject to shareholder approval at the Extraordinary General Meeting to be held on 21 June 2006. The agreed total consideration is £3.3 million (US\$5.7 million) for the Company to increase its effective shareholding in the West Zhuhai terminal from 18.5 per cent to 37 per cent and in Fu Duo from 57.5 per cent to 80 per cent and to repay loans from Vitol in respect of these assets. The principal impact will be that the Company has a more influential role in the operations of the West Zhuhai terminal, one of the largest facilities for import and distribution of transportation fuels in Guangdong Province.

In April 2006 the Company announced a conditional agreement to develop CBM gas reserves in the Liulin block in Shanxi Province, through forming a joint-venture with Molopo Australia Limited ("Molopo"). Molopo is an Australian listed company with CBM fields in Australia and first signed a production sharing contract ("PSC") for the Liulin block in 1999. The Company and Molopo have agreed that, subject to approval by the Ministry of Commerce, the foreign contractor rights in the PSC will be transferred by Molopo to Fortune Liulin Gas Company Limited, a Hong Kong registered subsidiary of Fortune Oil, and the exploration phase will be extended to 2008. Fortune Oil will commit US\$2.5 million for further appraisal of this CBM block over the next 18 months and will be entitled to 60 per cent shareholding in the company. The government party to the PSC, CUCBM, has now approved the transaction and we are awaiting approval from the Ministry of Commerce. We expect commercial development of the block will commence after two years, assuming that the appraisal program is successful.

This is the Company's first step into the upstream gas business. The Liulin block is one of the best geologically assessed CBM blocks in China, with an estimated in-place gas resource of 0.8 trillion cubic feet (23 billion cubic metres) in an area of 200 square kilometres, based on data from test wells drilled over the past 10 years by Molopo and government agencies. Molopo's CBM development expertise partnered with Fortune Oil's in-China project management expertise and gas marketing capability are a powerful combination.

We expect the initial investments at Liulin and the acquisition of Vitol's interests to be funded from current available funds.

### **Future Development**

We remain very optimistic concerning the prospects of our natural gas business, which we regard as our engine of growth. However in 2005 we appreciated the need to ensure long-term security of supply and for this reason we have been more cautious compared to some other gas companies in building our portfolio, preferring to ensure sustainability. Our entry into coal bed methane development is aimed at both creating an integrated gas business with more reliable supply and tapping into the vast potential of CBM in China.

The Company continues to exploit windows of opportunity as they open in the China oil and gas and infrastructure markets. The Maoming SPM and West Zhuhai terminal are unique investments for a foreign company in China and we will continue to build upon these positions. Bluesky continues to grow strongly, particularly from the rapid growth of the new Guangzhou airport. Given the surge in demand for transportation and terminals, particularly in north and east China, the Company continues to assess opportunities for new port projects in these regions. We are proud of our reputation and experience as one of the earliest foreign companies to invest in terminals in China and we plan to profit further from these strengths.

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**Announcement of Preliminary Results for Year Ended 31 December 2005**

**FINANCIAL REVIEW**

**Revenue and Expenditure**

This is the first year that the Group results have been stated and audited in accordance with IFRS. IFRS has not resulted in any significant impacts on the results or the financial position of the Group.

Revenues including the Group's share of joint ventures increased by 21 per cent to £143.1 million (US\$260.2 million) in 2005 from £118.1 million (US\$216.4 million) in 2004. The profit attributable to equity shareholders was £2.8 million (US\$5.1 million), an increase of 8 per cent over 2004 (£2.6 million, US\$4.7 million). Key differences were the exceptional item debit in respect of the SPM of £0.6 million in 2005 (for loss in disposal of the old buoy) and the exceptional item credit in respect of the write-back of creditor balances of £0.8 million in 2004. Earnings per share were 0.16 pence, a marginal decrease on the 2004 earnings per share of 0.17 pence. This decrease was primarily due to the timing of the share conversion by the two major shareholders in May 2004.

Capital expenditure and acquisitions increased to £10.9 million (US\$19.3 million) (2004: £2.8 million), comprising the city gas company at Huairou (£3.3 million), the Tongzhou CNG station with a fleet of CNG trucks (£3.9 million) and a new SPM buoy (£3.2 million). The 2005 debtors balance includes £1.1 million (US\$1.9 million) secured by a hotel in Beijing. Repayments from the hotel totalled £1.8 million (US\$3.3 million) in 2005. The Group had a net cash position of £2.6 million (US\$4.8 million) as at 31 December 2005, compared to £7.4 million (US\$14.2 million) in the previous year. The reduction was mainly due to the substantial increase in capital expenditure in 2005.

Net assets of the Group rose 19 per cent to £50.7 million (US\$87 million) as at the end of 2005 compared to £42.6 million in 2004 resulting from continued profits and exchange gains.

**Financial Costs and Tax**

Finance expenses for the Group were £454,000 (US\$826,000) in 2005, similar to the 2004 expense of £421,000 (US\$771,000). Loans to the Group at end 2005 totalled £9.1 million (US\$15.6 million) of which £4.2 million (US\$7.3 million) were due to First Level Holdings Limited, also the largest shareholder in the Company.

The Group's tax charge in 2005 was £544,000 (2004: £423,000) representing an effective tax rate of 10 per cent (2004: 6.4 per cent). The increase in effective tax rate resulted from the expiry of a tax holiday for Bluesky whose tax rate became 18 per cent in 2005 (7.5 per cent in 2004).

## **Foreign exchange**

The revenues and expenses of the Group are primarily denominated in Chinese renminbi (RMB) and Hong Kong dollars (HK\$), both of which are linked to the US dollar (US\$). Over the course of 2005 the pound sterling (£) depreciated by 10.1 per cent against the US dollar. In addition the PRC authorities began to loosen the RMB/US\$ peg and the RMB appreciated 2.6 per cent in 2005. The Company does not proactively hedge currency risk and any further revaluation of the RMB or change in US\$/£ exchange rate in 2006 is likely to affect the Group's results as denominated in sterling.

The Group sources both RMB for operating expenses in China and US\$ for equity investments in new joint ventures. A major element of the Group's foreign exchange needs currently comes from the dividend payments by the Maoming SPM and Bluesky joint ventures and from repayment of shareholder loans in relation to the West Zhuhai terminal. Historically the Maoming SPM and Bluesky joint ventures have usually paid out the full net profit as dividend after contributions to employee welfare funds.

## **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 subsidiary of the Company in Hong Kong. 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.

## **Returns**

The Group uses increase in profit before tax and before exceptionals (PATBE) as a measure of growth in return to shareholders, as reflected in the LTIP scheme for senior management. The Group has a target increase of 15 per cent per year. This target has been exceeded on average over recent years, for example averaging a 48 per cent per year increase from 2002 to 2005.

## **Dividend Policy**

The Group's policy historically has been to reinvest profits rather than declare dividends. Fortune Oil has also been restricted from declaring dividends because of the deficit in retained earnings. The Board believes that it is now appropriate to eliminate this deficit by restructuring its balance sheet to more accurately reflect its trading position and to enable payment of dividends in future. Shareholder approval will be sought for this at the forthcoming Extraordinary General Meeting on 21 June, subject to court confirmation.

## FORTUNE OIL PLC

### Announcement of Preliminary Results for Year Ended 31 December 2005

#### Group Income Statement for the Year Ended 31 December 2005

Amount in £'000	Note	2005	2004
Revenue including share of joint ventures	2	<b>143,057</b>	118,088
Share of revenue of joint ventures		<b>(98,068)</b>	(73,319)
<b>Group revenue – continuing operations</b>		<b>44,989</b>	44,769
Cost of sales		<b>(36,851)</b>	(36,775)
<b>Gross profit</b>		<b>8,138</b>	7,994
Exceptional items		<b>(629)</b>	801
Administrative expenses		<b>(4,617)</b>	(3,809)
Share of results of joint ventures		<b>2,810</b>	1,970
<b>Profit from operations</b>	2	<b>5,702</b>	6,956
Finance costs		<b>(454)</b>	(421)
Investment income		<b>156</b>	109
<b>Profit before taxation</b>		<b>5,404</b>	6,644
Taxation	3	<b>(544)</b>	(423)
<b>Profit for the year</b>		<b>4,860</b>	6,221
<b>Attributable to</b>			
Equity shareholders		<b>2,792</b>	2,631
Minority interests		<b>2,068</b>	3,590
		<b>4,860</b>	6,221
<b>Earnings per share</b>			
Basic	5	<b>0.16p</b>	0.17p
Diluted	5	<b>0.16p</b>	0.17p

## FORTUNE OIL PLC

### Announcement of Preliminary Results for Year Ended 31 December 2005

#### Group Balance Sheet as at 31 December 2005

Amount in £'000	2005	2004
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	26,747	16,705
Investment properties	1,800	1,438
Goodwill	1,074	968
Other intangible assets	914	947
Investments in joint ventures	19,410	16,908
Other investments	117	121
Other receivables	-	2,279
	<b>50,062</b>	<b>39,366</b>
<b>Current assets</b>		
Inventories	2,151	1,523
Trade and other receivables	6,272	5,035
Cash and cash equivalents	11,713	16,086
	<b>20,136</b>	<b>22,644</b>
<b>Total assets</b>	<b>70,198</b>	<b>62,010</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Borrowings	1,944	2,651
Trade and other payables	9,813	10,279
Current tax liabilities	241	110
	<b>11,998</b>	<b>13,040</b>
<b>Non-current liabilities</b>		
Borrowings	7,126	6,021
Deferred tax liabilities	336	354
	<b>7,462</b>	<b>6,375</b>
Total liabilities	<b>19,460</b>	<b>19,415</b>
<b>Net assets</b>	<b>50,738</b>	<b>42,595</b>
<b>Shareholders' equity</b>		
Ordinary shares	18,351	18,336
Treasury shares	(760)	(725)
Share premium account	37,344	37,318
Translation reserve	(2,062)	(1,982)
Retained earnings	(17,985)	(20,840)
<b>Total shareholders' equity</b>	<b>39,012</b>	<b>32,107</b>
<b>Minority interests</b>	<b>11,726</b>	<b>10,488</b>
<b>Total equity</b>	<b>50,738</b>	<b>42,595</b>

## FORTUNE OIL PLC

### Announcement of Preliminary Results for Year Ended 31 December 2005

#### Group Cash Flow Statement for the Year Ended 31 December 2005

Amount in £'000	2005	2004
<b>Cash flows from operating activities</b>		
Profit after tax	4,860	6,221
Adjustments for:		
Share of post-tax results of joint ventures	(2,810)	(1,970)
Taxation	544	423
Amortisation and depreciation	2,419	2,021
Impairment	158	-
Loss on disposal of property, plant and equipment	803	163
Share based payment	63	-
Investment income	(156)	(109)
Finance costs	454	421
Increase in inventory	(413)	(570)
Increase in trade and other receivables	2,076	(740)
(Decrease) Increase in trade and other payables	(1,859)	263
<b>Cash generated from operations</b>	<b>6,139</b>	<b>6,123</b>
Investment income	156	109
Finance costs	(454)	(421)
Taxation paid	(545)	(514)
<b>Net cash from operating activities</b>	<b>5,296</b>	<b>5,297</b>

## FORTUNE OIL PLC

### Announcement of Preliminary Results for Year Ended 31 December 2005

#### Group Cash Flow Statement for the Year Ended 31 December 2005 (cont.)

Amount in £'000	2005	2004
<b>Cash flow from investing activities</b>		
Dividend received from a joint venture	1,496	1,042
Payments for property, plant and equipment	(7,383)	(1,298)
Payments for intangible assets	(14)	(10)
Payments for investment properties	(187)	-
Receipt from disposal of property, plant and equipment	99	99
Acquisition of business/ subsidiaries	(3,273)	(1,531)
Investment in a joint venture	-	(370)
Repayment of loan from a joint venture	794	399
<b>Total cash flows used in investing activities</b>	<b>(8,468)</b>	<b>(1,669)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	41	4,514
Expenses incurred in conversion of convertible loan stock	-	(255)
Loan from minority shareholders	478	-
Dividend paid to minority shareholders	(2,346)	(1,535)
Repayment of loans	(1,194)	(1,041)
<b>Total cash flows (used in)/ from financing activities</b>	<b>(3,021)</b>	<b>1,683</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>(6,193)</b>	<b>5,311</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>16,086</b>	<b>11,548</b>
Effect of foreign exchange rate changes	1,820	(773)
<b>Cash and cash equivalents at end of the year</b>	<b>11,713</b>	<b>16,086</b>

## FORTUNE OIL PLC

### Notes to financial statements in respect of year ended 31 December 2005:

#### 1. Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS concerning the transition from UK GAAP to IFRS are given in note. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the companies Act 1985 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee relevant to its operations and effective for periods beginning on 1 January 2005. Accounting standards and interpretations in issue at the date of authorisation of the financial statements but not yet effective are not expected to have a material impact on the financial statements of the Group. An explanation of the transition from accounting principles generally accepted in the United Kingdom (UK GAAP) to IFRS is set out in note .

This preliminary statement, which has been agreed with the auditors, was approved by the Board on 26 April, 2006. It is not the Group's statutory accounts. The statutory accounts for the year ended 31 December 2004 have been delivered to the Registrar of Companies and received an audit report which was unqualified and did not contain statements under S 237(2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2005 have not yet been approved, audited or filed.

These are the first full year accounts to have been presented under IFRS. There have not been any significant impacts in the conversion to IFRS and the changes are consistent with those explained in last year's accounts and this year's interim report. The accounting policies adopted are consistent with the IFRS policies that were set out in full in the half year report. An explanation of the key matters in the preparation of the IFRS accounts and the reconciliation of 2004 results and opening balance sheet position are set out in note 6.

## 2. Segmental analysis

### a) Business segments

Amount in £'000	Single point mooring facility		Aviation		Natural gas		Oil trading & storage *	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenue including share of joint ventures	11,810	11,874	92,899	68,775	5,685	3,064	28,258	30,635
Share of revenue of joint ventures	-	-	(92,899)	(68,775)	-	-	(814)	(823)
<b>Group revenue</b>	<b>11,810</b>	<b>11,874</b>	<b>-</b>	<b>-</b>	<b>5,685</b>	<b>3,064</b>	<b>27,444</b>	<b>29,812</b>
<b>Profit from operations including share of results of joint ventures</b>	<b>4,456</b>	<b>6,069</b>	<b>2,336</b>	<b>1,382</b>	<b>137</b>	<b>(316)</b>	<b>(749)</b>	<b>(1)</b>
Finance costs								
Investment income								
<b>Profit before taxation</b>								
Taxation								
<b>Profit for the year</b>								
<b>Attributable to</b>								
Equity shareholders								
Minority interests								
Capital additions	3,223	499	-	-	7,298	2,159	335	180
Depreciation and amortisation	1,547	1,259	-	-	565	328	306	434
Impairment loss	-	-	-	-	-	-	158	-
<b>Net assets: by class of business</b>								
Assets	17,841	17,440	16,318	13,800	20,240	13,582	15,588	16,706
Liabilities	(3,239)	(3,250)	(14)	(15)	(5,421)	(3,821)	(10,657)	(11,880)
	<b>14,602</b>	<b>14,190</b>	<b>16,304</b>	<b>13,785</b>	<b>14,819</b>	<b>9,761</b>	<b>4,931</b>	<b>4,826</b>

Amount in £'000	Others* **		Central Administration		Group	
	2005	2004	2005	2004	2005	2004
Revenue including share of joint ventures					143,057	118,088
Share of revenue of joint ventures				3,740	(98,068)	(73,319)
				(3,721)		
<b>Group revenue</b>				19	<b>44,989</b>	<b>44,769</b>
<b>Profit from operations including share of results of joint ventures</b>				519	<b>5,702</b>	<b>6,956</b>
Finance costs					(454)	(421)
Investment income					156	109
<b>Profit before taxation</b>					<b>5,404</b>	<b>6,644</b>
Taxation					(544)	(423)
<b>Profit for the year</b>					<b>4,860</b>	<b>6,221</b>
<b>Attributable to</b>						
Equity shareholders					2,792	2,631
Minority interests					2,068	3,590
Capital additions					10,858	2,839
Depreciation and amortisation					2,419	2,021
Impairment loss					158	-
<b>Net assets: by class of business</b>						
Assets			129	128	70,198	62,010
Liabilities			(2)	(2)	(19,460)	(19,415)
			<b>127</b>	<b>126</b>	<b>(45)</b>	<b>(93)</b>
					<b>50,738</b>	<b>42,595</b>

\* Includes overheads in Hong Kong/PRC offices.

\*\* Others include distribution.

## b) Geographical operations

With the exception of operating loss of £545,000 (2004: £636,000) in respect of central administration in the United Kingdom, all of the Group's activities are carried out in China and Hong Kong.

The directors are of the opinion that the PRC and Hong Kong form one geographic segment.

## 3. Taxation

The taxation charge for the year is analysed below:

Amount in £'000	2005	2004
<b>Current tax</b>		
Group current tax		
UK tax	-	-
Foreign tax	598	498
<b>Total current tax</b>	<b>598</b>	<b>498</b>
<b>Deferred tax</b>		
Net reversal of timing differences - Group	(54)	(75)
<b>Total deferred tax</b>	<b>(54)</b>	<b>(75)</b>
<b>Tax on profit on ordinary activities</b>	<b>544</b>	<b>423</b>

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

Amount in £'000	2005	2004
<b>Profit on ordinary activities before taxation</b>	<b>2,594</b>	<b>4,674</b>
Theoretical tax at PRC corporation tax rate 33%	856	1,542
Effects of:		
- nil or lower tax in PRC	(832)	(1,340)
- tax losses carried forward	575	360
- adjustments in respect of prior years	-	(2)
- other expenditure that is not tax deductible	173	69
- other timing differences	(174)	(131)
<b>Total current tax</b>	<b>598</b>	<b>498</b>

The above reconciliation uses a 33% standard rate of tax, being the standard rate of tax payable in the PRC, where the majority of the Group's activities take place.

4. Dividends were not paid in any of the periods reported upon and no dividend is proposed.
5. Earnings per share have been calculated on the earnings on ordinary activities after taxation and minority interests of £2,792,000 (2004: profit of £2,631,000).

	<b>2005 No. '000</b>	<b>2005 pence</b>	2004 No. '000	2004 pence
Basic	1,774,293	0.16	1,583,164	0.17
Share option adjustment	8,618	-	9,296	-
<b>Diluted</b>	<b>1,782,911</b>	<b>0.16</b>	<b>1,592,460</b>	<b>0.17</b>

## 6. Reconciliation of financial statements from UK GAAP to IFRS

### (a) Reconciliation of group income statement to IFRS

Group income statement for the year ended 31 December 2004	UKGAAP as previously reported	Interest	JV's tax & interest
Amount in £'000			
<b>Turnover: group and share of joint ventures</b>	118,088	-	-
Less: share of joint ventures' turnover	(73,319)	-	-
<b>Turnover</b>	44,769	-	-
Cost of sales	(36,775)		
<b>Gross profit</b>	7,994	-	-
Exceptional administrative expenses	801	-	-
Other administrative expenses	(3,861)		
Total administrative expenses	(3,060)	-	-
<b>Group operating profit /(loss)</b>	4,934	-	-
Share of operating profit in joint ventures	2,500	-	(530)
Associates	-	-	-
<b>Total operating profit</b>	7,434	-	(530)
	-	(421)	-
	-	109	-
<b>Total operating profit</b>	7,434	(312)	(530)
Net interest payable	-	-	-
Group	(312)	312	-
Share of joint ventures	(305)	-	305
<b>Profit on ordinary activities before taxation</b>	6,817	-	(225)
Tax on profit on ordinary activities	-	-	-
Group	(423)	-	-
Share of joint ventures	(225)	-	225
<b>Profit on ordinary activities after taxation</b>	6,169	-	-
Equity minority interests	(3,590)		
<b>Retained profit for the year</b>	<u>2,579</u>		

**Group income statement**

for the year ended 31 December 2004

Amount in £'000	UKGAAP in IFRS format	Goodwill amortisation	IFRS	
<b>Turnover: group and share of joint ventures</b>	118,088	-	118,088	
Less: share of joint ventures' turnover	(73,319)	-	(73,319)	
<b>Turnover</b>	44,769	-	<b>44,769</b>	<b>Revenue</b>
Cost of sales	(36,775)	-	<b>(36,775)</b>	Cost of sales
<b>Gross profit</b>	7,994	-	<b>7,994</b>	Gross profit
Exceptional administrative expenses	801	-	<b>801</b>	Exceptional items
Other administrative expenses	(3,861)	52	<b>(3,809)</b>	Administrative expenses
Total administrative expenses	(3,060)	52	<b>(3,008)</b>	
<b>Group operating profit /(loss)</b>	4,934	52	<b>4,986</b>	<b>Operating profit</b>
Share of operating profit in joint ventures	1,970	-	<b>1,970</b>	Share of results of joint ventures
Associates	-	-	-	
<b>Total operating profit</b>	6,904	52	<b>6,956</b>	<b>Profit from operations</b>
	(421)	-	<b>(421)</b>	Interest payable
	109	-	<b>109</b>	Interest receivable
<b>Total operating profit</b>	6,592	52	<b>6,644</b>	<b>Profit before taxation</b>
Net interest payable	-	-	-	
Group	-	-	-	
Share of joint ventures	-	-	-	
<b>Profit on ordinary activities before taxation</b>	6,592	52	<b>6,644</b>	<b>Profit before tax</b>
Tax on profit on ordinary activities	-	-	-	
Group	(423)	-	<b>(423)</b>	Taxation
Share of joint ventures	-	-	-	
<b>Profit on ordinary activities after taxation</b>	<u>6,169</u>	52	<u>6,221</u>	<b>Profit for the year</b>
Equity minority interests				
<b>Retained profit for the year</b>				<b>Attributable to:</b>
	2,579	52	<b>2,631</b>	Equity shareholders
	3,590	-	<b>3,590</b>	Minority interest
	<u>6,169</u>		<u>6,221</u>	

## 6. (b) Reconciliation of Balance Sheet

Group balance sheet at 1 January 2004	UKGAAP as previously reported	Debtors	Creditors	Investment properties	Other intangible assets
Amount in £'000					
<b>Fixed assets</b>					
Tangible assets	19,754	-	-	(1,438)	(511)
Other intangible assets	1,035	-	-	-	-
Investment properties	-	-	-	1,438	-
	-	-	-	-	511
Investment in joint ventures	17,208	-	-	-	-
Other investments	138	-	-	-	-
	-	3,219	-	-	-
	38,135	3,219	-	-	-
<b>Current assets</b>					
Stock	1,022	-	-	-	-
Debtors: Amounts falling due after more than one year	3,219	(3,219)	-	-	-
Debtors: Amounts falling due within one year	3,829	-	-	-	-
Cash at bank and in hand	11,548	-	-	-	-
	19,618	(3,219)	-	-	-
	57,753	-	-	-	-
<b>Creditors: Amounts falling due within one year</b>	(30,363)	-	10,598	-	-
	-	-	(10,463)	-	-
	-	-	(135)	-	-
	(30,363)	-	-	-	-
<b>Creditors: Amounts falling due after more than one year</b>	(1,279)	-	-	-	-
<b>Provision for liabilities and charges</b>	(456)	-	-	-	-
	(1,735)	-	-	-	-
	(32,098)	-	-	-	-
<b>Net assets</b>	25,655	-	-	-	-
<b>Capital and reserves</b>					
Called up share capital	14,272	-	-	-	-
Investment in own shares	(690)	-	-	-	-
Share premium account	26,498	-	-	-	-
Exchange reserves	(4,572)	-	-	-	-
Profit and loss account	(18,899)	-	-	-	-
<b>Equity shareholders' funds</b>	16,609	-	-	-	-
Equity minority interests	9,046	-	-	-	-
	25,655	-	-	-	-

UKGAAP in IFRS format	Goodwill amortisation	Cumulative exchange reserves		
<b>Non-current assets</b>				
17,805	-	-	<b>17,805</b>	Property, plant and equipment
1,035	-	-	<b>1,035</b>	Goodwill
1,438	-	-	<b>1,438</b>	Investment properties
511	-	-	<b>511</b>	Other intangible assets
17,208	-	-	<b>17,208</b>	Investments in joint ventures
138	-	-	<b>138</b>	Other investment
3,219	-	-	<b>3,219</b>	Other receivable
<b>41,354</b>	-	-	<b>41,354</b>	
<b>Current assets</b>				
1,022	-	-	<b>1,022</b>	Inventory
-	-	-	-	
3,829	-	-	<b>3,829</b>	Trade and other receivables
11,548	-	-	<b>11,548</b>	Cash and cash equivalents
<b>16,399</b>	-	-	<b>16,399</b>	
<b>57,753</b>	-	-	<b>57,753</b>	<b>Total assets</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
(19,765)	-	-	<b>(19,765)</b>	Borrowings
(10,463)	-	-	<b>(10,463)</b>	Trade and other payables
(135)	-	-	<b>(135)</b>	Current tax liabilities
<b>(30,363)</b>	-	-	<b>(30,363)</b>	
<b>Non-current liabilities</b>				
(1,279)	-	-	<b>(1,279)</b>	Borrowings
(456)	-	-	<b>(456)</b>	Deferred tax liabilities
<b>(1,735)</b>	-	-	<b>(1,735)</b>	
<b>(32,098)</b>	-	-	<b>(32,098)</b>	<b>Total liabilities</b>
<b>25,655</b>	-	-	<b>25,655</b>	<b>Net assets</b>
<b>Equity</b>				
14,272	-	-	<b>14,272</b>	Ordinary shares
(690)	-	-	<b>(690)</b>	Treasury shares
26,498	-	-	<b>26,498</b>	Share premium account
(4,572)	-	4,572	-	Translation reserves
(18,899)	-	(4,572)	<b>(23,471)</b>	Retained earnings
<b>16,609</b>	-	-	<b>16,609</b>	<b>Total equity shareholders' funds</b>
9,046	-	-	<b>9,046</b>	Minority interest
<b>25,655</b>	-	-	<b>25,655</b>	<b>Total equity</b>

Group balance sheet at 31 December 2004	UKGAAP as previously reported	Debtors	Creditors	Investment properties	Other intangible assets
Amount in £'000					
<b>Fixed assets</b>					
Tangible assets	19,090	-	-	(1,438)	(947)
Other intangible assets	916	-	-	-	-
Investment properties	-	-	-	1,438	-
	-	-	-	-	947
Investment in joint ventures	16,908	-	-	-	-
Other investments	121	-	-	-	-
	-	2,279	-	-	-
	37,035	2,279	-	-	-
<b>Current assets</b>					
Stock	1,523	-	-	-	-
Debtors: Amounts falling due after more than one year	2,279	(2,279)	-	-	-
Debtors: Amounts falling due within one year	5,035	-	-	-	-
Cash at bank and in hand	16,086	-	-	-	-
	24,923	(2,279)	-	-	-
	61,958	-	-	-	-
<b>Creditors: Amounts falling due within one year</b>	(13,040)	-	10,389	-	-
	-	-	(10,279)	-	-
	-	-	(110)	-	-
	(13,040)	-	-	-	-
<b>Creditors: Amounts falling due after more than one year</b>	(6,021)	-	-	-	-
<b>Provision for liabilities and charges</b>	(354)	-	-	-	-
	(6,375)	-	-	-	-
	(19,415)	-	-	-	-
<b>Net assets</b>	42,543	-	-	-	-
<b>Capital and reserves</b>					
Called up share capital	18,336	-	-	-	-
Investment in own shares	(725)	-	-	-	-
Share premium account	37,318	-	-	-	-
Exchange reserves	(6,554)	-	-	-	-
Profit and loss account	(16,320)	-	-	-	-
<b>Equity shareholders' funds</b>	32,055	-	-	-	-
Equity minority interests	10,488	-	-	-	-
	42,543	-	-	-	-

UKGAAP in IFRS format	Goodwill amortisation	Cumulative exchange reserves		
<b>Non-current assets</b>				
16,705	-	-	<b>16,705</b>	Property, plant and equipment
916	52	-	<b>968</b>	Goodwill
1,438	-	-	<b>1,438</b>	Investment properties
947	-	-	<b>947</b>	Other intangible assets
16,908	-	-	<b>16,908</b>	Investments in joint ventures
121	-	-	<b>121</b>	Other investment
2,279	-	-	<b>2,279</b>	Other receivable
<b>39,314</b>	<b>52</b>	<b>-</b>	<b>39,366</b>	
<b>Current assets</b>				
1,523	-	-	<b>1,523</b>	Inventory
-	-	-	<b>-</b>	
5,035	-	-	<b>5,035</b>	Trade and other receivables
16,086	-	-	<b>16,086</b>	Cash and cash equivalents
<b>22,644</b>	<b>-</b>	<b>-</b>	<b>22,644</b>	
<b>61,958</b>	<b>52</b>	<b>-</b>	<b>62,010</b>	<b>Total assets</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
(2,651)	-	-	<b>(2,651)</b>	Borrowings
(10,279)	-	-	<b>(10,279)</b>	Trade and other payables
(110)	-	-	<b>(110)</b>	Current tax liabilities
<b>(13,040)</b>	<b>-</b>	<b>-</b>	<b>(13,040)</b>	
<b>Non-current liabilities</b>				
(6,021)	-	-	<b>(6,021)</b>	Borrowings
(354)	-	-	<b>(354)</b>	Deferred tax liabilities
<b>(6,375)</b>	<b>-</b>	<b>-</b>	<b>(6,375)</b>	
<b>(19,415)</b>	<b>-</b>	<b>-</b>	<b>(19,415)</b>	<b>Total liabilities</b>
<b>42,543</b>	<b>52</b>	<b>-</b>	<b>42,595</b>	<b>Net assets</b>
<b>Equity</b>				
18,336	-	-	<b>18,336</b>	Ordinary shares
(725)	-	-	<b>(725)</b>	Treasury shares
37,318	-	-	<b>37,318</b>	Share premium account
(6,554)	-	4,572	<b>(1,982)</b>	Translation reserves
(16,320)	52	(4,572)	<b>(20,840)</b>	Retained earnings
<b>32,055</b>	<b>52</b>	<b>-</b>	<b>32,107</b>	<b>Total equity shareholders' funds</b>
10,488	-	-	<b>10,488</b>	Minority interest
<b>42,543</b>	<b>52</b>	<b>-</b>	<b>42,595</b>	<b>Total equity</b>

## 7. Basis of Preparation of IFRS Information

In preparing these accounts the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Exemptions from full retrospective application elected by the Group.

The Group has made the following choices in respect of the optional exemptions from full retrospective application, as set out in IFRS 1.

(a) Business combinations

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

(b) Cumulative translation differences exemption

The Group has applied the cumulative translation differences exemption to all subsidiaries and joint ventures. The Group has chosen to continue to classify translation reserves as a separate component of equity.

The following optional exemptions from full retrospective application have not been made as they are either not applicable or management have chosen not to apply the exemption:

- (a) Fair value as deemed cost exemption
- (b) Employee benefits exemption
- (c) Compound financial instruments exemption
- (d) Assets and liabilities of subsidiaries, associates and joint ventures exemption
- (e) Exemption from restatement of comparatives for IAS 32 and IAS 39.
- (f) Designation of financial assets and financial liabilities exemption
- (g) Share based payment exemption
- (h) Insurance contracts exemption
- (i) Decommissioning liabilities included in the cost of property, plant and equipment exemption
- (j) Fair value measurement of financial assets and liabilities at initial recognition

The Group has made the following choices in respect of the mandatory exceptions from retrospective application, as set out in IFRS:

- (a) Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same data under previous GAAP unless there is evidence that those estimates were in error.
- (b) Assets held for sale and discontinued operations exception.

Management applied IFRS 5 prospectively from 1 January 2005. Any assets held for sale or discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2005. The group did not have any assets that met the held-for-sale criteria during the period presented. No adjustment was required.

The following mandatory exceptions to retrospective application have not been applied as they are not applicable to the Group:

- (a) Derecognition of financial assets and liabilities exception
- (b) Hedge accounting exception.

#### **Explanation of the Adjustments from UK GAAP to IFRS**

- Under IFRS, the directors consider it appropriate to include headings on the income statement to show revenue including share of joint ventures as previously reported under UKGAAP.
- Interests in associates and joint venture entities are accounted for using the equity method under UK GAAP and IFRS. Under UK GAAP, the Group's share of their operating profits, interest and taxation were included under those respective captions in the income statement. Under IFRS, the Group's share of the profits of joint ventures and associates are disclosed in a single line within "Share of results of Joint Ventures".
- Debtors due after one year, included within current assets under UK GAAP, are reclassified within "Non-current assets" under IFRS as "Other receivable" financial assets.
- Under UKGAAP, goodwill was amortised on a straight-line basis over its economic useful life of up to 20 years, tested for impairment and provided for as necessary. Under IFRS, goodwill is no longer amortised but is carried at cost and is subject to annual review. Amortisation charged in 31 December 2004 has been written back as a result.
- Land use rights are reclassified as other intangible assets under IFRS.
- Under IFRS 1, "First-time adoption of IFRS", the Group has adopted IAS 32 and IAS 39 "Financial Instruments" prospectively from 1 January 2005, and there was no significant impact.

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