company profile

Fortune Oil PLC, a company listed on the London Stock Exchange Main Market with its operational headquarters in Hong Kong, focusing on oil, natural gas and resource supply, operations and investments in China. Company shares are held by the public (47.01 per cent), First Level Holdings Limited (36.51 per cent), Vitol (7.40 per cent), major Chinese state-owned corporations (4.51 per cent) and Kerry Holdings Limited (4.57 per cent).

contents

chairman's statement

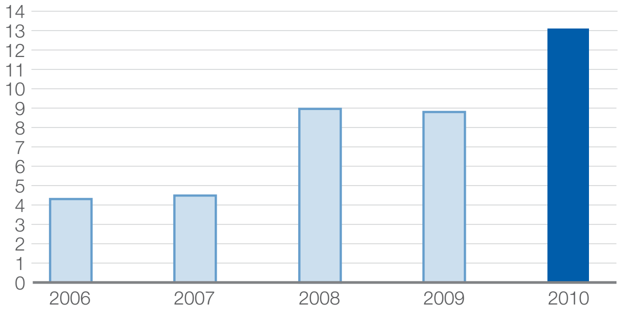
In a highly challenging and uncertain world, Fortune Oil achieved record operating profits in 2010

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

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

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

Profit Attributable to Shareholders
£ million



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

QIAN Benyuan
Chairman
27 April 2011

chief executive's review

Overview

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

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

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

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

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

Key Performance Indicators

We continue to use the six principle Key Performance indicators (KPIs) that were adopted in 2004. We feel these continue to be valuable in assessing how well the Group has been performing against its strategic aims. In 2010 we met or exceeded five out of six KPIs (see page 7).

New Term Loan

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

Oil Division

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

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

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

Our independent Trading business continued to expand in 2010 with the import and export of non-regulated oil products and petrochemicals on a low risk agency or back to back basis. We traded 286,000 tonnes of products in 2010 compared to 249,000 in 2009, an increase of 15% with a total turnover of RMB 1.8 billion (£170.5 million) compared to RMB 1.1 billion (£107.1 million) in 2009. The trading business made an earnings contribution of RMB 13 million (£1.3 million) in 2010 compared to RMB 11 million (£1.0 million) in 2009.

Gas Division

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

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

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

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

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

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

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

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

Coal Bed Methane

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

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

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

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

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

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

New Corporate Strategy

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

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

Dividend

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

Business Outlook for 2011

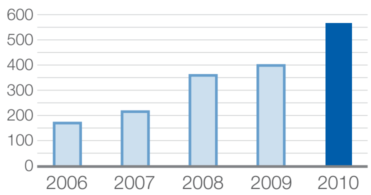
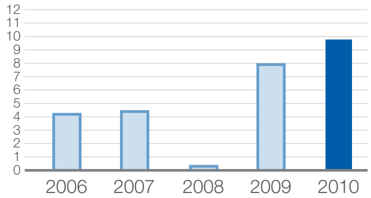
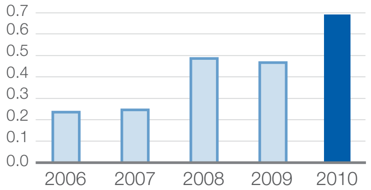
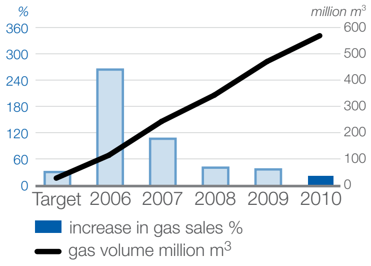
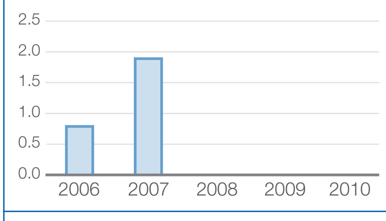
I am very excited about the growth prospects for Fortune Oil and how we can continue to strengthen our position in what has now become the world's second largest economy, China. We anticipate continued strong growth in the Group's natural gas businesses and expect good results from the new environmentally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

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

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

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

TEE Kiam Poon
Chief Executive
27 April 2011

	Key Performance Indicator Target	Commentary
Group Revenues *£ million* 	To increase the Group's revenues (including share of jointly controlled entities) by 10% per year over the long term.	Target exceeded: 40% increase over 2009. KPI has been exceeded every year since 2004 due to growth in both Group volume sales and in hydrocarbon prices.
Profit Attributable to Equity Shareholders (Before Exceptionals) *£ million* 	To achieve a growth of above 15% per year over the long term in profit attributable to equity shareholders. Before 2009 this was defined as net profit after tax and before exceptional items.	Target considerably exceeded in 2010, after adjusting the net profit for gain on disposal to be consistent with the 2009 KPI assessment (as profit attributable to shareholders before exceptionals).
Earnings Per Share *Pence* 	To increase earnings per share (EPS) by 15% per year over the long term.	Target met year on year from 2009 to 2010 (there was a 46% increase) Average EPS growth over the past 5 years was 39%, significantly exceeding the target.
Increase in Gas Sales *%* **and Gas Volume** *million m³* 	To increase the volume sales of gas by over 30% per year.	Target not met: 21% growth over 2009.
Lost Time Injury Frequency Rate for Subsidiaries *Lost time injuries per million man hours* 	To ensure safe operation for our personnel, as measured by Lost Time Injury Frequency Rate (LTIFR) for our subsidiary companies.	Target met as LTIFR was zero in 2010. Safety at work is critical to our business.
	To minimise the accidental release of hydrocarbons from all our operating companies to the environment.	Target met as there were no significant spillages or releases. The Company is committed to environmental protection.

business review

OUR ORGANISATION

Fortune Oil PLC, as a London Stock Exchange main market listed company with the operational headquarters in Hong Kong, has for over eighteen years supplied oil and natural gas in China the world's second largest economy and energy market. We have done this reliably and, importantly, safely. Today our activities span across northern, central and southern China. Fortune Oil seeks to exploit opportunities in the oil and natural gas industry as the China market continues to expand, with particular emphasis on the supply of natural gas as a premium clean fuel.

Our Oil Division continues to be a strong cash generator for the Group. The Bluesky aviation fuel business supplies jet fuel to 15 major airports which handled 90 million passengers up over 10% in 2010. Our natural gas business is focussed in 7 key provinces with a total population of 370 million people, where we provide our customers with fuel for transportation, the energy to heat their homes, and the power to drive their industries.

Our natural gas division has grown significantly since inception five years ago with natural gas sales volume increasing from 34 million cubic meters per annum in 2005 to 581 million cubic meters per annum in 2010. Our activities span the length of the natural gas supply chain from upstream production of gas to downstream marketing and sales. Upstream activities include coal bed methane (CBM) exploration, gas field development and gas production. Downstream activities include pipeline operation, transportation and processing of gas, and the marketing and sales of gas to the industrial, commercial, residential, and transportation markets.

Our objective is the continued rapid expansion of our natural gas business in line with the Chinese government plans to increase natural gas supply and demand significantly. This expansion is part of the Chinese governments new 12th five year plan which covers the development period from 2011 to 2015. Petrochina, Sinopec and NDRC are projecting that demand for natural gas could more than double China's 2010 gas consumption by 2015 (230 billion cubic meters per annum) This is equivalent to a compound annual growth rate of 15.9%.

In November 2010 Fortune Oil announced that it was pursuing overseas investment opportunities to capitalise on the demand for energy and resources in China. Specifically, Fortune Oil will focus on the development of high growth rate commodities such as oil, gas, coal, iron ore and other natural resources, in countries which are close to China and with abundant reserves. We announced in February 2011 our new strategic alliance with seven leading Chinese and International organisations to support this development. The initial focus of this alliance will be to support Fortune Oil's commercialisation of the Armenian iron ore resources.

In summary our aims are:

- To become a leading integrated gas supplier in north and central China;
- To bring Liulin CBM to gas commercialisation and to integrate it with downstream markets;
- To develop opportunities for the supply of fuels to China, in particular exploiting our unique position in oil products supply and terminal operations; and
- Develop overseas high growth rate commodities such as oil, natural gas, coal and metals with linkage to China and the ability to generate cash flows within three years.

This Operational Review details our performance in 2010, assesses the changing economic and business environment in China, the performance of the major operating businesses, and our responsibilities to the community.

OUR MARKET

Economic Context

China's economy continues to perform well in line with government expectations. In 2010 China's GDP surged 10.3% reaching RMB 39.8 trillion (US$6.04 trillion) and resulted in China displacing Japan as the world's second largest economy. However, China per capita GDP is still only US$4,412 and still lags significantly compared to Japan (GDP per capita US$42,431). Hence, the Chinese Government sees that there is still much more to do to improve living standards across China and so will continue to grow the economy further and this will result in continued growth in energy demand. The Government is planning to boost domestic demand further through reform of its personal income and property taxes to increase salaries, improve education and housing, all of which should encourage consumption.

In 2010 inflation rather than growth has become the main concern for the Chinese government. The consumer price index increased to 5.1% in November the highest for two years, before dropping to 4.6% in December. To curb inflation the Central Bank of China has increased the banks reserve requirement ratio seven times and raised its benchmark interest rates twice since January 2010.

China's foreign trade increased 34.7% per annum in 2010 to US$2.97 trillion. The trade surplus fell 6.4% to US$183.1 billion, as exports grew 31.3% to US$1.58 trillion but imports surged 38.7% to US$1.39 trillion leading towards a more balanced structure.

The trend of the Renminbi (RMB) exchange rate appreciation has been the focus of international attention. Over time the RMB is expected to appreciate against other major global economies but the Chinese Government and central bank are expected manage this appreciation to ensure that exports remain competitive and avoid any impact on growth and employment in China. The move towards a balancing of China's foreign trade should also mitigate international concerns.

Energy Market

The return to growth in the major developed economies coupled with strong growth in developing economies resulted in global crude oil and liquid fuels consumption growing by an estimated 2.4 million bbl/d in 2010 to 86.7 million bbl/d, the second largest annual increase in at least 30 years.

Oil prices remained reasonably stable for most of 2010, although at the high end of the OPEC price target range, with the average Brent Blend crude price in 2010 of US$80.3/bbl – 28.5% higher than in 2009. Recent unrest across North Africa and the Middle East has unsettled markets and has raised crude oil prices to 2 year highs.

China accounted for some 40% of global energy market growth in 2010 and IEA forecasts this to increase to 45% from 2010 to 2015. China's crude oil consumption grew by 13.1% in 2010 reaching a record high of 9.34 million bbl/d in November 2010 and crude oil imports also reached a record level of 4.79 million bbl/d, an increase of 17.5%. Growth is expected to slow in 2011 as fewer new refineries are planned to come on-stream but with oil demand still predicted to continue to grow at 5-6% per year over the next five years.

Rapid increasing demand for transportation fuels such as petrol, diesel and jet fuel continues to drive growth in crude oil demand in China. In 2010 new vehicle sales in China reached 18.1 million units, up 32.4% accounting for 20% of global car sales compared to 11.6 million units sold in the USA. Similarly heavy duty vehicle sales increased 37.8% to 1.95 million units sold in 2010.

However, vehicle ownership in China lags significantly compared to other major global economies. According to the China Passenger Car Association, in 2010 China's vehicle ownership was still only 20.5 vehicles per 1,000 people compared with 765 vehicles per 1,000 people in the USA and 300 vehicles per 1,000 people in Europe. The China Ministry of Industry and Information Technology predicts that the vehicle ownership in the country will exceed 200 million by 2020 (circa 200 vehicles per 1,000 people). National and regional authorities are taking steps to restrict new car purchases and promote cleaner and low emission vehicles to combat serious traffic congestion problems in major cities and growing pollution concerns. Therefore, we see continued growth in transport fuel demand creating significant opportunities for natural gas fuelled vehicles and associated refuelling networks.

China has the aspiration to further develop and expand its natural gas economy. China's natural gas consumption is still relatively low compared to other major economies and accounted for only 3.7% of China's primary energy consumption in 2009 compared to 10.8% in the Asia Pacific region and 23.8% in the world. Natural gas consumption per capita in 2009 was only 67 cubic meters per year compared to the world average of 434 cubic meters per year.

The government is supporting investments and introducing policies to increase natural gas supply and consumption nationwide, since natural gas is a clean and efficient energy source and is seen as one of the best options for building a low-carbon economy. Since China can secure gas from a wide range of different sources both domestically and around the world, it also addresses concerns about security of energy supply.

China's natural gas consumption in 2010 reached 110 billion cubic meters, a rise of 20% year on year according to the National Energy Administration (NEA). Meanwhile, gas production reached 94.5 billion cubic meters, a 12% increase from 2009. Over the period 2000 to 2010 China's natural gas consumption has now grown at an average compound annual growth of over 15% per annum and this growth in demand is predicted to continue over the next twenty years with demand projected to rise 20% in 2011 to 130 billion cubic meters with production projected to increase 16% to 110 billion cubic meters.

To meet this increased demand China imported 4.4 billion cubic meters of natural gas via pipelines from Central Asia and 9.3 million tons of liquefied natural gas (12.9 billion cubic meters) in 2010, an increase of 75% year on year.

China continues to make significant investments in major natural gas infrastructure projects. The Western section and major parts of the eastern section of the West-East Pipeline II have already been completed. When it is fully operational in 2012, this pipeline will supply a further 40 billion cubic meters of gas from Turkmenistan across the whole length of China to Shanghai and eventually south to Guangdong. Additional gas supply projects, such as the Sichuan to East and Myanmar to China pipelines, will increase supplies by a further 27 billion cubic meters. The Government is planning 17 additional national pipeline projects including West – East Pipeline IV and Shaanxi-Beijing Pipeline III, with a schedule to complete all of these by 2015. These projects will increase gas supply across China and open up new opportunity for Fortune Oil's gas businesses.

To diversify the sources of natural gas supply China is expanding its LNG import capacity. There are three LNG import terminals currently in operation with total installed capacity of 12 million tonnes per annum (16.5 billion cubic meters) and eight more are under construction along the whole coast of China. The eight LNG terminals under construction will initially have a total combined capacity of 22.5 million tonnes per annum (31 billion cubic meters) with plans to expand these terminals to 67.5 million tonnes per annum (93.1 billion cubic meters). The LNG market inland China is also growing significantly and where pipeline access is not commercially viable small scale LNG plants are being constructed and the LNG moved in tankers to the customers. Today China small scale LNG combined capacity is 2 million tonnes (2.7 billion cubic meters) and more plants are currently under construction or at the planning stage which will bring an additional 4 million tonnes (5.5 billion cubic meters) production on stream.

To meet this increased gas demand China is also expanding natural gas production within country and its coastal waters, developing both conventional and unconventional natural gas resources. China has significant undeveloped unconventional gas reserves and is ramping up their commercialisation. These resources include tight gas sands, coal bed methane (CBM), and shale gas. China CBM production remained around 1 billion cubic meters per annum in 2010, and the development of this gas resource has so far not achieved the Chinese Government targets. Increased investment in CBM is anticipated if China is going to achieve the ambitious target of 10 billion cubic meters of CBM by 2015 and 20 billion cubic meters by 2020. Success of Fortune Oil's Liulin CBM state pilot project will be a critical marker and will ensure Fortune Oil is well positioned to take advantage of this growth and access additional acreage in the future.

Markets for gas are prioritised by the Chinese government. Highest priority is for urban consumers, particularly residential apartments (for heating and cooking), commercial enterprises (such as restaurants) and vehicles (for natural gas fuelled buses and taxis). Industrial use of gas in factories for boilers and direct fired industries, for example glass and ceramics, is also supported where gas is displacing coal or fuel oil as the energy source. Unlike OECD countries, gas will not be a major fuel in China for power plants, given the large domestic reserves of coal and the emphasis on nuclear, wind and hydro as alternatives for power generation. Gas is regarded as a premium clean fuel; it is cleaner and more convenient than other fossil fuels, it is cheaper than petroleum based transportation fuels in most parts of China, and it helps reduce urban pollution.

Natural gas fuelled vehicles are being introduced successfully across many of China's major cities and there are currently over 450,000 natural gas vehicles; principally taxis and buses in daily operation. Fortune Oil sees both compressed natural gas and liquefied natural gas as ideal fuels for the transportation sector offering the customer an economic and environmental benefit compared to conventional fuels such as petrol and diesel.

Even with the expansion in supply China continues to face natural gas shortages particularly in the high demand winter period. In the winter of 2009 to 2010 ten major cities in China experienced significant gas supply shortages ranging from 200,000 to 600,000 cubic meters per day. A total gas supply shortage of 10 billion cubic meters was predicted for 2010 with supplies to industrial users and CNG refuelling stations being cut or reduced during high demand periods. China has not yet developed an extensive gas storage system to effectively manage the peaks and troughs in demand across the seasons. Underground storage capacity is 2.2% of total annual gas consumption volume, far below the world's average of 15%. Key to Fortune Oil's expansion plans is ensuring sufficient gas supply from the key gas suppliers Petrochina and Sinopec and that the regional government is fully supportive of our developments.

The continued growth of the natural gas market in China will create significant opportunities for Fortune Oil. Our business experience and strong relationship within the gas industry in China will enable us to continue to capitalise and grow this strategically important market through our existing operations and through selective investments. Our gas strategy is to focus on the high margin and volume markets and will continue to expand two target sectors; the industrial users and the refuelling of LNG and CNG vehicles

Aligned with this strategy Fortune Oil in the last 12 months has announced the completion of four major transactions:

- The Dashiqiao spur pipeline and city gas network which has the potential demand of up to 0.3 billion cubic meters natural gas due to the large magnesium industry in 2010.
- The Jianping spur pipeline and city gas network which has the potential demand of up to 0.2 billion cubic meters of natural gas to the local ceramics industry in 2011.
- The Everthriving LNG dual fuel ship conversion and refuelling development in 2010.
- The Shenyang LNG bus refuelling development in 2011.

These four projects have the potential to grow Fortune Oil's gas sales by up to an additional one billion cubic meters by 2015.

Market Regulation

The petroleum sector in China continues to be dominated by the state-controlled domestic oil companies. For the major transportation fuels (gasoline, jet fuel and diesel) the cross-border trade remains restricted and the prices are set by the government through the National Development and Reform Commission (NDRC). Cross-border trading and the pricing of certain refined products such as LPG and fuel oil are deregulated and these markets are highly competitive. Following the oil price volatility of 2008 the government introduced new pricing policies for petroleum products such as consumption taxes and mechanisms to ensure that domestic price levels closely follow international price levels for key transportation fuels such as jet fuel.

The prices at the well-head for conventional gas fields and along the trunk gas pipelines are set by the NDRC. While local authorities generally set a limit on residential gas price, based on affordability or the price of competing fuels (normally LPG), prices in the distribution chain are generally set by commercial negotiation. The domestic price of gas is deliberately kept stable, with upward step changes every one or two years across the gas chain. Currently most gas is sourced domestically the prices therefore are currently not sensitive to movements in international prices keeping levels below average global prices. Despite the currently low international spot prices for gas, China will continue to favour development of domestic unconventional resources such as coal bed methane to avoid over dependency on gas imports.

However, although the inland price of gas remains below the cost of imported gas China's government intends to move prices up towards international levels in the medium term. There is a market expectation that well-head prices will rise significantly so as to encourage further development of the nation's gas resources, and this will benefit gas fields such as Liulin. In line with this policy and as a first step the Chinese Government increased the well-head gas price by RMB 0.23 per cubic meter from June 2010.

Natural gas as a transportation fuel is also regulated although regional governments are starting to link natural gas sales prices for transportation purposes to the gasoline price. As a result the sales price of natural gas to the transportation sector is on average over RMB 1 per cubic meter higher than the sales price of gas to the residential sector.

The 12th Five Year Plan, which sets out the Chinese Governments agenda for the period 2011 to 2015, was issued in March 2011 and continues to promote the use of natural gas in China over higher carbon containing fuels such as coal and fuel oil. The 12th Five Year Plan included a series of targets aimed at reducing energy consumption per unit of GDP by 16% in the five years to 2015, cutting carbon dioxide emissions by 17% per unit of GDP from 2010 levels and slashing major pollutant emissions by 8 to 10% including sulfur dioxide (SOx) and nitrous oxides (NOx). Natural gas will play a key role in ensuring these targets are achieved.

As part of the five-year plan, China will construct oil and natural gas pipelines totalling about 99,419 miles in the next five years, including a gas pipeline to central Asia and oil pipelines to Kazakhstan and Myanmar and increase gas storage capabilities.

Fortune Oil's gas strategy of building a vertically integrated gas business with upstream and downstream operations is intended to enable us to optimise margins along the gas chain as new policies are introduced. Our expansion of upstream production and supply of unconventional sources of natural gas to our downstream markets is supported under the five year plan, as are diesel replacement projects such as the LNG bus project in Liaoning and the Everthriving LNG ship project. With our strategy fully aligned with the objectives of the government's 12th five year plan, we expect a smoother navigation of regulatory approvals and enhanced political support.

Commodities

China demand for all the main commodities such as coal, iron ore and copper continues to grow. China iron ore imports reached a record 68.97 million tonnes in January 2011 up 18.8% from 58.08 million tonnes in December with steel mills bolstering inventories before the Lunar New Year in February. Iron ore imports reached 618.64 million tonnes for 2010 which was down 9.13 million tonnes compared to the previous year although spending on these imports reached US$79.43 billion up US$29.28 billion as a result of iron ore prices reaching almost record prices of US$200 per tonne (delivered China) in Q1 2011. Iron ore imports account for over 65% of China's iron ore demand and this was the first year in the last twelve that iron ore imports did not increase year on year. Projections are that China iron ore imports could double in the next 5 years.

Fortune Oil's strategic alliance to develop overseas resources includes SinoSteel which is one of the major steel producers in China committed to the "go global" policy. Beijing announced a new social housing programme that is set to buoy China's demand for iron ore in coming years, with the government planning to build or renovate 36 million units of social housing by 2015 which will house 100 million people when completed. Traders believe that the mills are already getting ready for the extra orders they expect from the programme.

OIL DIVISION OPERATIONS

Fortune Oil has a unique portfolio of oil activities in partnership with the leading Chinese State owned enterprises including Petrochina, Sinopec and China National Aviation Fuel Company supplying oil, jet fuel and petrochemicals in our selected markets. In 2010 we continued to expand our supply of oil and jet fuel with Bluesky achieving a record performance with sales volume increasing 10% to 2.3 million tonnes.

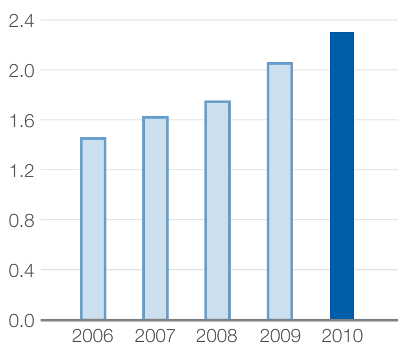
Bluesky Aviation

South China Bluesky Aviation (Bluesky) is one of the largest aviation fuel storage, supply and logistic operations in China. Bluesky owns and operates the entire aviation fuel storage terminals, pipelines and aviation refuelling services for 15 major airports in central and southern China. This includes the new Guangzhou Baiyan international Airport which is the third largest airport in China and where in 2009 Federal Express opened its new US$150 million Asia-Pacific hub terminal.

In 2010 Bluesky's sales of jet fuel continued to increase, rising by 10% to 2.3 million tonnes, compared with 2.1 million tonnes in 2009. Joint venture revenues increased to RMB 11.6 billion (£1,118 million) compared to RMB 8.7 billion (£814 million) in 2009. Bluesky achieved a net profit of RMB 375 million (£36.1 million) with a Fortune Oil share of £8.8 million, the highest profit to date.

Key to achieving this strong performance was through more efficient cost management and an enhanced procurement strategy of sourcing jet fuel from the local refineries in Guangdong and Wuhan to reduce dependency on imported jet fuel from the international market. Fortune Oil will continue to identify options to improve cost management and the procurement strategy.

Bluesky
Sales, million tonnes



Demand for air travel continues to be supported heavily by the Chinese Government. Under the 12th Five Year plan China has announced that it will open 45 new airports at a cost of RMB 1.5 trillion ($230 billion) within the next five years to bring the total to 220 airports to support China's growing need for air travel and reduce airport congestion.

Fortune Oil will continue to expand its aviation refuelling activities to meet this growing demand for air travel. Plans are now underway for a second passenger terminal at Baiyun that will add 80 refuelling aprons and 21 parking stands. Similar expansion is happening at other airports, with additional storage capacity recently installed at Nanning, a third terminal now being planned at Wuhan, and a new airport at Shantou.

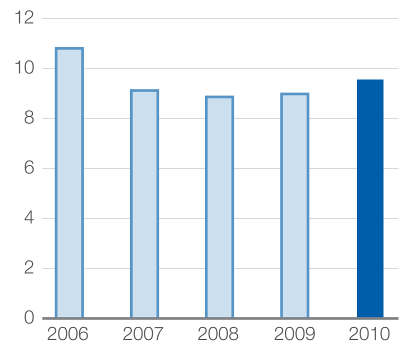
The majority of Bluesky's jet fuel sales are to domestic airlines, in particular China Southern, for whom the price of jet fuel is fixed by NDRC. Sales to international airlines are based on, normally higher, international prices and in 2010 accounted for 12% of volume sales.

With a stabilised government pricing policy and increasing demand for passenger and cargo traffic, we expect Bluesky's sales volumes and profit to continue to grow in a sustainable manner.

Maoming single point mooring (SPM)

China's only off shore oil import terminal supplying 4% of China's crude oil imports. The Maoming single point mooring (SPM) acts as a delivery point for imported crude oil and can handle Ultra Large Crude Carriers (300,000 dwt) supplying the Sinopec Maoming Refinery in Guangdong Province.

Maoming SPM
Throughput, million tonnes



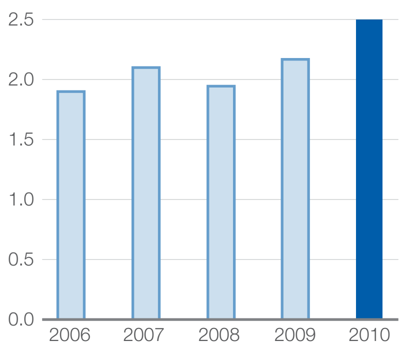
In 2010 SPM throughput was 9.7 million tonnes, compared with 9.2 million tonnes in 2009 an increase of 6%, and the SPM handled 50 tankers. 2010 throughput revenues increased to RMB 149 million (£14.4 million) from RMB 141 million (£13.1 million) in 2009 and the net profit was RMB 47 million (£4.5 million) compared with RMB 49 million (£4.6 million) in 2009. Fortune Oil's share of net profit in 2010 was RMB 19 million (£1.8 million) compared with RMB 20 million (£1.8 million) in 2009. SPM underwent increased maintenance in 2010 and this had an adverse affect on the availability of the SPM over the year. A new crude oil import tank is under construction by Sinopec and this will increase the unloading capacity of SPM in the second half of 2011.

SPM has operated safely for over 16 years without any oil pollution. Following the crude oil leakage disaster in Dalian additional safety checks were carried out nationwide at the request of the Chinese Government. No issues were identified with the design or performance of the SPM.

West Zhuhai jetty and storage terminal

West Zhuhai gasoline and diesel jetty and storage terminal supplying Petrochina downstream retail businesses continued to deliver better than expected performance. In 2010 the throughput including transshipment was 2.5 million tonnes (2009: 2.2 million tonnes). The net profit increased in 2010 to RMB 34 million (£3.3 million) compared to RMB 29 million (£2.7 million) in 2009. The Fortune Oil share of net profit increased to £1.2 million.

West Zhuhai
Throughput, million tonnes



The terminal continues to play an important role for Petrochina and their downstream strategy in Southern China where it acts as a key distribution hub to support its downstream businesses including its retail joint venture with BP in the Pearl River Delta. In March 2010 the joint venture approved an expansion to double the terminal's storage capacity. Construction is underway and involves the construction of 5 new tanks with capacity of 220,000 cubic meters, after which the terminal will have 22 tanks and a capacity of 457,000 cubic meters. The estimated cost of the project is RMB 120 million (£11.9 million) which will be financed using the joint venture's internal resources and local bank loans. The expansion project is expected to be completed in 2011. The new tanks will broaden the customer base and allow other products to be stored and distributed from the terminal including jet fuel and petrochemicals and positions the West Zhuhai terminal as a strategic distribution hub to support downstream customers in the Pearl River Delta region.

Trading

The Trading Business continues to focus on the supply of fuels, petrochemicals and coal as well as the Company's interest in two gasoline retail stations in Beijing. The trading environment was more difficult in 2010 since some industries had not fully recovered from the economic crisis of 2008. In 2010 we traded 286,000 tonnes of petroleum products and petrochemicals, compared to 249,000 tonnes in 2009. Total turnover in 2010 was RMB 1.8 billion (£170.5 million) compared to RMB 1.1 billion (£107.1 million) in 2009. The Trading business made an earnings contribution of RMB 10 million (£1.0 million) compared to RMB 11.2 million (£1.0 million) in 2009. The Trading business is focused on the import of unregulated petroleum products such as fuel oil and lube base oil and on the export of petrochemicals, which uses trading lines from international banks in Hong Kong. In early 2010 this was expanded to include the import of coal from South East Asia.

GAS DIVISION OPERATIONS

Overview

With operations in 13 cities across 8 provinces and municipalities with over 174,000 connected customers we continue to rapidly expand our supply of natural gas to our existing and new customers. During the year, the division saw an increase of over 32,000 connected customers, contributing to a strong rise in gas sales volumes of 21% to 581 million cubic metres over 2010. Total revenues for Fortune Gas including share of jointly controlled entities increased to RMB 1,005 million (£96.7 million) (2009: RMB 791 million, £73.8 million). In 2010 this business generated an operating profit of RMB 113 million (£10.8 million), compared to RMB 94 million (£8.8 million) in 2009. The Fortune Gas net profit contribution to Fortune Oil rose by 118% to £6.1 million (2009: £2.8 million), after consideration of the non-controlling interest held by Wilmar.

Our gas operations extend from development of CBM gas upstream, distribution and sale of gas through gas pipelines, gas processing facilities, retail CNG stations, and city gas supply. Our plan to develop a vertically integrated gas company remains on track with the Company making some key acquisitions and also divesting of non-core assets.

An important development for Fortune Gas in H1 2010 was the investment in the Dashiqiao gas pipeline. The 51% equity stake with Liaoning Zhengrun Natural Gas Co. provides the rights to develop the spur pipeline and gas distribution in the Dashiqiao areas.

Fortune Gas also invested in the Liaoning Jianrun Natural Gas Co which has the rights to develop the spur pipeline and gas distribution in the Jianping areas.

The acquisition of Everthriving will enable Fortune Oil to develop a network of LNG refuelling stations along the Yangtze River from Shanghai to Chongqing to supply a large fleet of LNG fuelled ships which will start to enter operation from 2011 to 2012.

Natural Gas will continue to be the growth engine of the Company in both revenue and earnings. The vision for Fortune Gas is to be a leading integrated supplier of gas in north and central China. Fortune Oil will continue to develop new projects like Dashiqiao, Jianping and Everthriving to meet this goal.

To position our natural gas business in our selected regions and markets we are in the process of rationalising our natural gas business and the divestment of our 51% controlling interest in Henan Fortune Green Energy Development Company ("Green Energy"), is part of this restructuring.

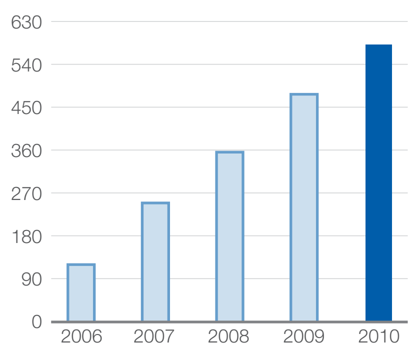
Fortune Gas Volume Sales, including sales from jointly controlled entities, million m^3:

	2010	2009	2008	2007	2006
Wholesale CNG	**107**	80	68	63	43
Wholesale LNG	**70**	74	46	18	–
Spur Pipeline Gas	**234**	190	140	114	51
City Gas Networks	**114**	76	50	36	28
Retail CNG (both natural gas and CBM)	**56**	62	50	21	–
Total	**581**	**482**	**354**	**252**	**122**

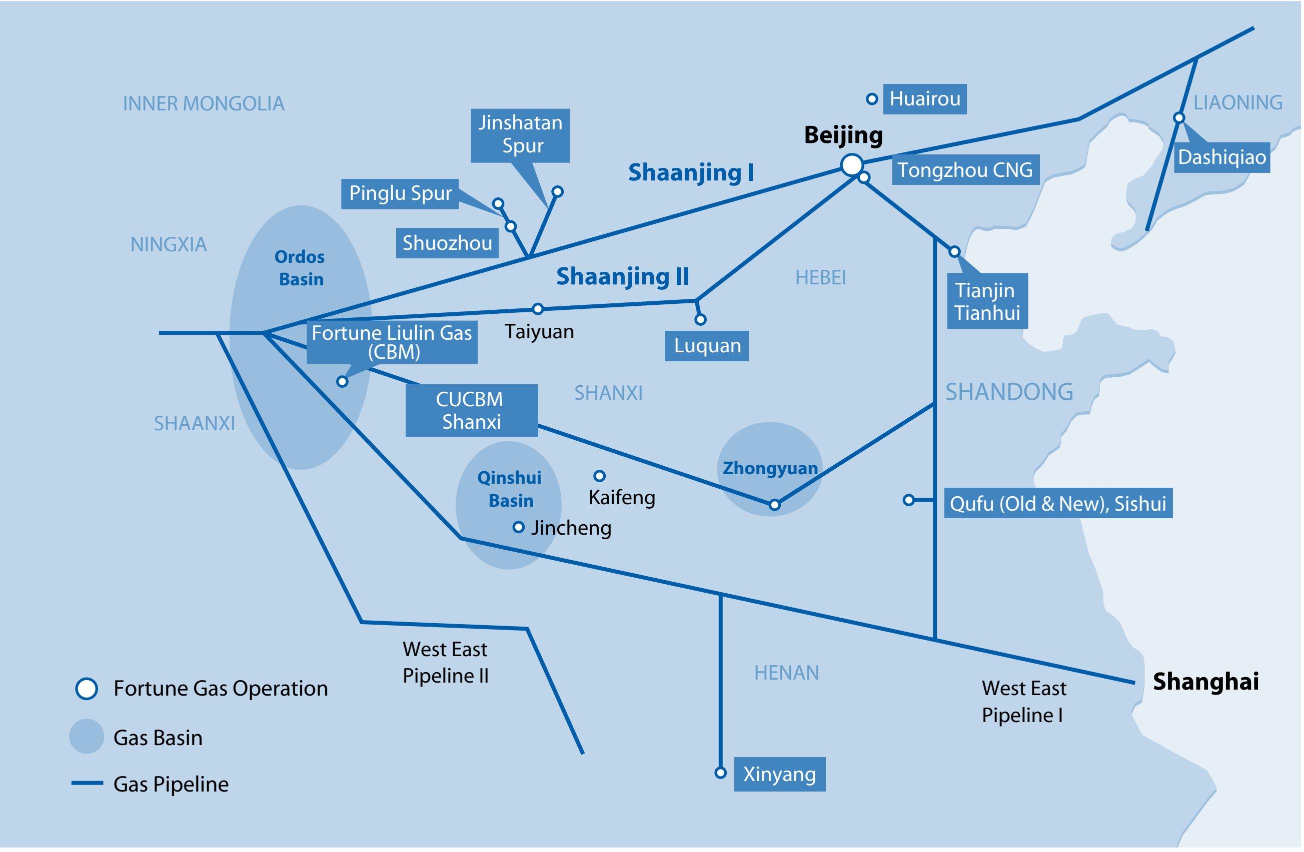
Most of the growth in volume sales came from increased sales in the existing operations rather than through our acquisitions. However Fortune Oil expects this demand to increase, with ramp-up of sales through all the spur pipelines, city gas networks and refuelling projects in the coming years.

We still expect domestic LNG production to be an important part of the gas supply chain in China although the rapid expansion of the coastal import terminals is expected to increase competition.

Natural Gas
Sales, million cubic metres



Fortune Gas Investments



The Fortune Gas operating profit is evenly distributed between the various gas distribution activities (wholesale and retail CNG, wholesale LNG, pipeline tariffs, end user sales and user connection fees) with no over dependency on any one revenue stream. In the coming year Fortune Oil expects revenues to commence from the sale of coal bed methane from Liulin and increased sales to the industrial and transportation sector as our recently announced projects enter commercial operation.

Liulin coal bed methane State Pilot Project

Fortune Gas, with its Liulin CBM project designated as a State Pilot Project is strategically well positioned to capitalise on the expansion of CBM in China. The Chinese Government partner CUCBM is also investing alongside Fortune Liulin Gas (FLG) with the objective of demonstrating gas production capacity of 50 million cubic meters per annum. This includes deployment of cutting edge in-seam drilling and advanced hydraulic fracturing technology which will enhance Fortune Oil's position as a significant developer of unconventional gas in China.

The Luilin project covers 183 square kilometres and is located in the eastern part of the Ordos basin 500 km south west of Beijing. Fortune Gas has a controlling interest in Fortune Liulin Gas Company (FLG), which is the foreign contractor in the Production Sharing Contract (PSC) with CUCBM. The PSC was extended for a further two years to 29 March 2012. In May 2010 the Ministry of Land & Resources (MLR) registered Fortune Oil's reserves for seams 3, 4 and 5 in the northern section of the block, covering an area of 72 square kilometres with gas in place of 5.3 billion cubic meters, of which 2.7 billion cubic meters is categorised as economically recoverable. This represents only a portion of the potential reserves as certification has yet to be carried out for other coal seams and other sections of the block. Chinese reserve certification, which is a necessary precondition to the preparation of the Overall Development Plan (ODP) for the block.

In 2010 Fortune in conjunction with Dart has drilled and completed 2 single lateral wells and 4 vertical wells with total footage of 11,200 meters. FLG has also completed the fracture stimulation of 7 vertical cluster wells for seams 3, 4 & 5 and together with CUCBM 14 wells have been put into test production in preparation for reserve certification of the southern section of the block.

CUCBM have completed 2 horizontal wells and currently 16 wells are in test production. The two horizontal wells have shown promising results with a gas flow of over 11,000 cubic meters per day (1.5 Mpa bottom hole pressure) continuously and with stable flow with a peak gas flow rate of 16,000 cubic meters per day. These new wells will enable reserves certification for additional coal seams across the block and development of the ODP.

In August 2010, an initial 15 years gas sales agreement was concluded for an annual volume of 33 million cubic meters per year from the Liulin CBM block commencing 1 June 2011, with take or pay arrangements commencing 1 June 2012. The price is RMB 1.58 per cubic meter (US$6.59/gigajoule) including recently enacted Chinese government subsidies is subject to annual review and escalation.

A Fortune Oil subsidiary, CUCBM Shanxi, will construct facilities in the Liulin block for marketing the early CBM production as CNG within the coming year. The higher gas volumes anticipated in the later production phase will require additional marketing infrastructure and discussions have already commenced with regional pipeline companies for this.

In December 2009, Dart Energy Limited (formally Arrow Energy International) farmed in to the block by acquiring a 3.7% interest in FLG with a series of options to increase its equity interest in FLG. In March 2010 Dart Energy increased its equity interest in FLG to 35% for a total consideration of US$13.3 million. In December 2010 Dart Energy increased its equity interest in FLG to 45% on payment of US$8.7 million.

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

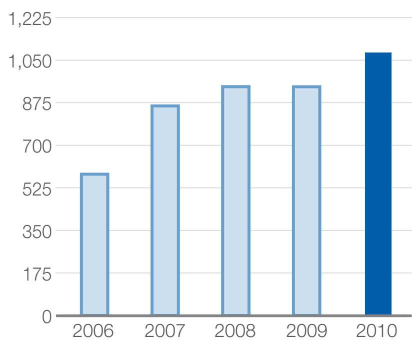
Wholesale Gas Distribution

The Fortune Gas wholesale operations include five spur pipeline companies, a CNG wholesale station at Tongzhou (in Beijing), and a fleet of road trailers for transporting CNG. We continue to expand our gas pipeline network which increased to 1080 km in 2010. Our spur pipeline companies take title of the gas and are paid a tolling fee for the transportation of the gas. As the major transnational pipelines are developed and gas becomes available to more regions Fortune Oil is developing the spur pipeline network to link the transnational pipelines to our customers in the cities. Fortune Oil is partnering with the local companies in these regions and working with Petrochina to secure the gas supply from the major pipelines. There are significant growth opportunities for the Group's spur pipeline business since China is discouraging the use of coal and heavy fuel oil through new regulations and is promoting users to switch to natural gas.

An important new development for Fortune Gas in H1 2010 was the investment in the Dashiqiao gas pipeline which gives Fortune Gas the rights to natural gas supply in and around Dashiqiao, Liaoning Province. The city is home to one of the largest magnesium industries in the world, with 570 industrial companies in the business. Currently the industry's energy needs are met by coal and heavy fuel oil and the substitution by natural gas will significantly reduce pollution in the region. Fortune Gas has secured a gas supply agreement with Petrochina and the pipeline is currently under construction. The spur pipeline is expected to commence operation in 2011 with the potential demand of up to 0.3 billion cubic meters of gas per annum by 2015 to industrial and residential consumers in and around Dashiqiao.

Also in Liaoning Province Fortune Gas invested in the Liaoning Jianrun Natural Gas Co. which has rights to develop the spur pipeline and gas distribution in the Jianping area which has a major ceramics industry with a potential gas demand of up to 0.2 billion cubic meters per annum by 2015.

Gas Pipeline Length
km



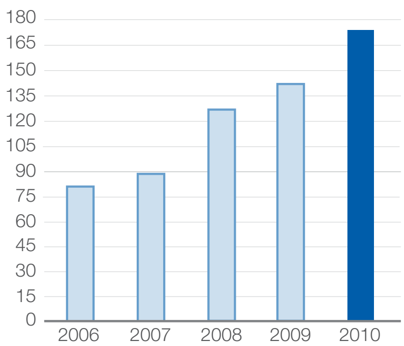
Retail Gas Sales

Fortune Oil's city gas companies own and operate the city networks and generally have exclusive rights for gas supply often for up to 30 years. Most new gas connections are to new apartment complexes and commercial buildings, and the developers pay a locally set connection fee which normally exceeds the cost of connection. Volume sales of gas are limited by the availability of gas supply, the number of connections and user demand.

During the year the Group continued its focus on boosting connections in existing gas projects and this programme is resulting in sustained increases in the overall connection rate. In 2010 we connected over 32,000 new customers and by the end of 2010 we had over 174,000 connected customers to seven city gas companies (Xinyang, Shuozhou, Huairou, Luquan, Qufu old city, Qufu new city and Sishui). The market penetration rates remain low: typically less than 20% of the connectable urban populations have been connected to the city network and the outlying communities have yet to be connected. The largest city gas business is at Xinyang, Henan Province, a city with an urban population of 600,000.

Sales of CNG by truck is also an efficient way of distributing gas from coal bed methane or conventional gas fields close to centres of population. Two Fortune Oil joint ventures are already purchasing CNG from coal bed methane producers in south Shanxi Province for use in retail CNG stations.

Number of Connected Users
Thousands



Natural gas refuelling

Natural gas use as a fuel for transportation is also growing rapidly due to China's desire to reduce the transportation sectors dependence on foreign crude oil imports and improve local air quality. As of the end of 2009 there were over 450,000 CNG vehicles up from 200,000 CNG vehicles in 2008 mainly urban buses and taxis. Currently there are over 1,000 CNG refuelling stations in China with the numbers continuing to increase rapidly. In line with this growing market we plan to continue to expand our supply of CNG and LNG to this high margin sector and are planning to expand the supply of natural gas to cars, buses and ships across several provinces.

Fortune Oil has 21 retail CNG stations in operation in 2010 with 5 still under construction. In 2010 Fortune Oil supplied over 56 million cubic meters of CNG to refuel buses and taxis.

We expect LNG to become increasingly important in the transportation sector as Chinese manufacturers start to produce more buses and trucks powered by LNG, a cheaper and cleaner fuel than diesel. With LNG offering greater range than CNG it is well suited to inter city buses and heavy duty trucks. First mover advantage will enable Fortune Oil to capture the prime refuelling site locations for these vehicles.

In 2010 we announced two investments in the LNG refuelling market. Firstly, Fortune Oil acquired 65% of Beijing Everthriving Energy Technology Co., Ltd for an initial cash payment of £3.7 million and contingent consideration of £4.9 million. Everthriving has exclusive rights to use proprietary LNG "dual fuel" technology to convert existing diesel engines to run on diesel and LNG. This requires minimal engine modification but Everthriving proprietary engine management control technology optimises the engine performance resulting in operations with up to 80% LNG fuel.

There is growing pressure to reduce the emissions from the maritime industry, particularly SOx, NOx and particulate matter. International maritime standards are being implemented which will require significant reductions in the emissions from ships and in some parts of the world there will be exclusion areas for ships which can not meet these emission standards. LNG is a clean fuel and therefore will not produce SOx or particulate matter. Everthriving is well advanced in its technology development of its "dual fuel" technology although to meet this emerging market several companies are also now developing LNG fuelled ships including Rolls Royce, MAN and Wartsila.

The first ship converted by Everthriving (3000 dwt) has been undergoing river trials along the Yangtze in the presence of the key government regulatory agencies whose approval will be necessary before the large scale deployment can be implemented. This approval is anticipated in the second half of 2011 following which Fortune Oil's shipping partner, Yangtze Shipping Company is planning to convert a fleet of up to 500 ships to operate along the Yangtze. Each ship is projected to consume over 500,000 cubic meters of natural gas per annum. Several ship yards have been appointed who will be able to convert the ships with the combined capacity of handling up to 7 ships per week.

Fortune Oil will construct up to six LNG refuelling stations along the Yangtze and establish a fully integrated LNG fuel supply chain.

The second major development for Fortune Oil is the formation in February 2011 of a Joint Venture with Shenyang Zhonglian Enterprise Development Co. and Able Field International Ltd to provide LNG to public transit buses in Liaoning Province, China. Shenyang Development is a privately owned enterprise and one of the market leaders in providing transportation services, with strong government relationships within Liaoning Province, China. This is the first provincial level pilot project approved by the Ministry of China National Transportation for the introduction of up to 6,000 LNG public buses with Fortune Liaoning supplying the refuelling stations and LNG fuel. Fortune Oil will initially construct 3 LNG stations to support the first fleet of 200 LNG buses and will expand this as the bus fleet expands across the province with the plan to install 60 LNG stations to refuel a fleet of around 6,000 buses.

The Group has developed a large amount of experience in the LNG business covering production, distribution and marketing, and LNG refuelling. Fortune Oil is uniquely placed to expand its LNG operations and develop a major, high margin and sustainable business in this important rapidly expanding gas market in China.

CORPORATE SOCIAL RESPONSIBILITY

Our Community

The Company's operations are currently solely in the People's Republic of China (PRC). We ensure that the Company's operations are in compliance with national and local laws and practices. Our ongoing success relies on the maintenance of excellent relationships in our communities, particularly with our local joint venture partners and regulatory authorities.

Fortune Oil has a proven track record of safe and reliable operation. The Company remains one of the few international companies with both oil and gas operations onshore China and has been at the forefront of introducing new approaches such as the SPM concept and developing CNG and LNG refuelling. Fortune Oil is proud to have played a role in introducing cleaner fuels and new standards in China.

Many of the Company's businesses are among the largest foreign invested enterprises in that area and they provide a benchmark for other local companies. As part of their social responsibility programmes in China, our companies support community activities and provide training to customers in regards to the safe use of fuels. We also interact with local and national government and associations such as the China Energy Association to further the development of better policies.

The Company intends to follow the same principles and practices as it develops operations elsewhere in the world.

All senior management of the Company are required to familiarise themselves with the Company's code of ethics in relation to areas such as supervisory rules, insider dealing, market malpractices, whistle blowing policy, conflicts of interest, proper use of the Company's assets and reporting requirements for listed companies. These are detailed in the Company Staff Handbook which is regularly updated and distributed to Company staff in UK, Hong Kong and PRC. The Company does not condone any form of corrupt behaviour in business dealings and the Staff Handbook details the actions that any employee should take should they suspect corrupt activity.

Our Employees

Fortune Oil's employment policy is to attract, develop and retain talented people and to provide attractive long term career prospects for employees. We provide equal opportunities and fair treatment to all employees regardless of their nationality, age, ethnic group, race, religious beliefs, disability or gender, with selection only subject to satisfying the operational requirements.

As at 31 December 2010 the Group companies employed 1,999 staff (2009: 2,196 staff) of whom 54% are in the Fortune Gas operations and over 99% of whom are PRC citizens. The reduction in the Group company employee numbers is a direct result of the Henan Green Energy divestment. Of the Group's employees 28% are female

(2009: 27%), including the Executive Director, and 48% are educated to University level or higher.

The Group companies comply with all regulations concerning employees such as the funding of local trades unions and community activities. Our operating companies follow the PRC regulations on employment of disabled people (the Group currently has 4 disabled employees). All employees are over 18 years old.

The Company has established a rigorous employee management system covering labour contracts, benefits, training and performance evaluation. In 2010 the number of employees leaving the Group represented 6.4% of the staff (2009: 3.1%). This staff turnover rate is still significantly lower than the average for foreign companies in China and reflects the attractiveness of a career in the Fortune Oil Group.

Appropriate employment policies will be developed for the new operations complying with local laws and regulations but also meeting international best practice standards.

Health and Safety

As an investor and operator we view the safety of our staff and our community as a top priority. We have a policy to maintain safe and healthy working conditions, to maintain safe plant and equipment and to provide appropriate training and operating procedures. We utilise international practices for safety management and we ensure the reporting of all accidents, so that the causes can be dealt with where possible and other employees may learn from the experience. For example in 2010 transportation training was carried out across the organisations as road traffic accidents are seen as one of the high risk activities of Fortune Oil's operation and Group wide safety seminars were conducted to ensure a shared learning. Following the Petrochina oil pipeline explosion and oil spill in Dalian, Fortune Oil carried out a comprehensive safety inspection of the Single Point Mooring, oil pipeline and oil tank area in line with the emergency notification.

In 2010 there were no Lost Time Injuries or fatal accidents in the Company's subsidiaries (i.e. where we have operational control):

Safety Performance for Subsidiaries

	2010	2009	2008	2007
Number of Fatal Accidents	**–**	–	–	–
Number of Lost Time Injuries	**–**	–	–	3
LTIFR	**–**	–	–	1.9

ENVIRONMENTAL REVIEW

Environmental Policy

Fortune Oil has a policy of minimising the impact on the environment and the HSE policy is on our website and in our staff handbooks. We aim to apply best industry practices where possible in the China context to improve environmental performance and to foster close relationships with the local community. Development of environmental management systems and ISO14000 certification has only been practicable so far in the Bluesky operations, largely because of different procedural approaches in China.

There is a growing awareness of environmental issues in China and a demand for safer, less polluting fuels. Natural gas is the most environmentally friendly, safe and efficient hydrocarbon fuel and we have been one of the first international companies to supply natural gas to users in China.

The requirements of our environmental and sustainability policy are incorporated through the planning, operations and closure of projects and this will also cover the new Resources developments outside of China.

Oil and Gas Emissions

Our primary environmental focus is to prevent the release of hydrocarbons, whether they occur through leaks in pipelines, spills or leaks during transfers, the venting of tanks or tank overflows.

Fortune Oil is the only non-domestic company with a major interest in a crude oil import facility in China (the Maoming SPM). We recognise that a spill of crude oil from the SPM buoy or subsea pipeline could have a significant environmental impact. To this end we endeavour to ensure that facilities at this MKM joint venture are maintained to the highest standards. An environmental protection vessel, a tug and a fire fighting vessel are stationed at the SPM whenever a tanker is discharging oil. There has not been a crude oil spill from MKM's facilities since its start up in 1994.

The Bluesky and West Zhuhai joint ventures, where we have a minority interest, handle lighter refined products (jet fuel, diesel and gasoline). The Company's emissions of volatile organic compounds (VOCs) are low and come mainly from small spills, pipeline leakage or natural venting from tanks at these facilities plus methane release in our gas operations. VOC emissions are difficult to quantify as there have been no significant measurable accidental releases since the Company began to monitor emissions in 2007.

Greenhouse Gas Emissions

There is a growing realisation in China concerning the impact of the country's emissions on climate change. One of the major concerns is methane (CH_4), the main constituent of natural gas. Not only is methane a safety hazard in coal mines, but it is also 21 times more effective than carbon dioxide (CO_2) in trapping heat in the atmosphere. The average lifetime of methane in the atmosphere is significantly less than that of CO_2, so a reduction in methane emissions will have a more immediate effect in reducing global warming. A priority for Fortune Oil is to be a prime mover in recovering and utilising methane from coal seams that would otherwise escape to the atmosphere, both through drilling for CBM and in our planned recovery of vented or flared gas from gas sources such as coal mines. This is a major challenge for China and for global warming.

The Company's direct emissions of greenhouse gases are small, mainly being methane releases when equipment is maintained, flaring of gas from our Liulin wells (as required under NDRC guidelines for reserves certification), the combustion of gas for power and the use of diesel and gasoline for vehicles. However the Company's indirect emissions of greenhouse gases have increased significantly each year since 2007 primarily because of the increased use of electricity for production of LNG by Green Energy (electricity purchases account for 60% of the Company's emissions although this asset was divested in November 2010). However, the LNG business, like our natural gas business as a whole, has a major positive impact on the environment compared to alternative fuels as it provides a net saving in emissions of pollutants such as greenhouse gases, particularly in displacing the use of more polluting coal and less efficient LPG. The carbon footprint of gas is significantly less than that of coal as a fuel, for example even for power generation independent studies have shown that the life cycle greenhouse gas emissions using coal are twice those using piped gas or LNG.

Fortune Oil was one of the first operating companies in the oil and gas sector in China to measure emissions. The initial objective is to bring about awareness among staff and customers of the importance of minimising emissions, particularly carbon, and increasing the efficiency of our operations.

Equity Share of Emissions

These are categorised in accordance with UK government (DEFRA) guidelines and the 2006 IPCC Guidelines for National Greenhouse Gas Emissions and exclude secondary emissions by customers through utilisation of our fuels:

	2010	2009
Methane to Air (tonnes)	**148**	193
Greenhouse Gases to Air (tonnes CO_2 equivalent)	**24,955**	25,829
Local Air Quality pollutants (such as NOx, SOx)	**Negligible**	Negligible
Volatile Organic Compounds to Air (tonnes)	**197**	233
Smog Precursors (such as particulates)	**Negligible**	Negligible
Chemical Waste	**Negligible**	Negligible
Metals Emissions	**Negligible**	Negligible

Other Environmental Impacts

The Group's operations use of water is primarily for office use and cleaning vehicles. The total consumption of water in 2010 by all the Group's businesses decreased to 181,689 m^3 (2009: 263,427 m^3). The Group's operations do not currently involve any significant consumption or handling of hazardous chemicals and there is no material effluent or waste generated, other than as a result of excavation work for laying small diameter pipelines.

China already has a substantial body of legislation covering environmental issues. For example environmental impact assessment studies and permits are required for many of the Bluesky expansion projects and for CBM drilling, and fines can be imposed by local government for environmental mismanagement. Fortune Oil ensures that all of our businesses are in compliance with such national and local directives and there were no such fines in 2010. The upstream operations have a potential impact on the local communities because of the need to establish drilling sites with access for large trucks. Drilling takes place only after approvals from and compensation to local inhabitants. In addition there is a substantial production of water from our CBM wells which, though clean and potentially useful, needs careful management with discharge approvals from the Liulin environmental bureau; the 2010 water production of 77,288 m^3 was less than in 2009 (106,130 m^3) because the wells dewatered more quickly.

Almost all of the Group's hydrocarbon fuels in China are currently sourced via state controlled companies, principally PetroChina and Sinopec. The Company maintains excellent relationships with these suppliers who are reliable providers of energy in China and internationally listed companies.

GLOSSARY

bcm
Billion cubic metres (1,000,000,000 m^3), when converted to normal conditions of 0.1 MPa (Mega Pascal) pressure and 20 degrees Celsius temperature.

CBM
Coal Bed Methane, refers to methane deposits in coal seams. CBM is generated during coal formation and adsorbed in the natural fracture surfaces in coal. CBM can be extracted by drilling prior to coal mining and can normally be utilised as natural gas (commonly referred to as an unconventional source of gas).

CMM
Coal Mine Methane which is extracted during coal mining operations. It has a lower methane content than CBM because of air ingress.

Coal Seam Gas
Methane gas trapped in coal seams, which may be extracted as CBM or CMM.

CNG
Compressed Natural Gas, gas which has been compressed to between 4 MPa and 25 MPa of pressure, and is transported in tanks as a gas.

CO_2 equivalent
The quantity of greenhouse gases emitted in million tonnes, when expressed as though it was carbon dioxide (CO_2), so as to indicate the potential impact on global warming.

CUCBM
China United Coalbed Methane Corporation Ltd, the principal PRC government entity responsible for entering into PSCs with foreign companies for development of CBM fields.

dwt
Dead-weight tonnage, the carrying capacity of a ship.

Gas
"Natural gas" for domestic supply contains over 90 per cent methane (CH_4). Conventional gas is sourced from petroleum gas fields but the same quality gas could also come from unconventional sources such as coal bed methane.

GDP
Gross Domestic Product

HSE
Health, Safety and Environment.

Hydrocarbons
Organic compounds sourced from crude oil or gas.

KPI
Key Performance Indicator, a measure of the Company's performance.

LNG
Liquefied Natural Gas, gas which has been liquefied by cooling to approximately 150 degrees Celsius below zero, and is transported in tanks as a liquid.

LPG
Liquefied Petroleum Gas, a mixture of propane and butane (whereas natural gas is mostly methane). Supplied to customers under pressure in bottles as a liquid or via a pipeline network as a gas, sometimes mixed with air.

LTIFR
Lost Time Injury Frequency Rate. An LTI is any work related injury or illness which prevents a person working the following day. Calculated as LTIs per million working hours.

m m^3/a
Million cubic metres per year, when converted to normal conditions of 0.1 MPa (Mega Pascal) pressure and 20 degrees Celsius temperature.

NDRC
National Development and Reform Commission, the principal government entity in China for economic and energy policy.

ODP
Overall Development Programme for an oil & gas field.

PRC
The People's Republic of China.

PSC
Production Sharing Contract, an agreement between the government and a foreign company for exploration and development of a natural resource block.

RMB/m^3
Renminbi per normal cubic metre of gas.

SPM
Single Point Mooring buoy, which allows an oil tanker to moor at its bow and through which oil is discharged to a sub-sea pipeline. The MKM subsidiary operates the only SPM in China for import of crude oil.

principal risks and uncertainties, their effects and our management strategy

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

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

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

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

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

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

Development risks

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

Uninsured risks

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

financial review

Revenue and Expenditure

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

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

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

Capital expenditure and acquisitions

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

Financial Position

The net assets of the Group at 31 December 2010 were £166.3 million (RMB 1,669 million), compared with £134.2 million (RMB 1,473 million) in 2009. The cash position remained strong and net cash as at 31 December 2010 was £28.9 million compared with £7.2 million as at 31 December 2009. The cash balance exceeded the outstanding Group bank loan balances. Together with the positive cashflow from operation, the Group envisages no difficulties in meeting both current loan repayment obligations and investment commitments.

Financial Costs and Tax

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

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

Foreign Exchange

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

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

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

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

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

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

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

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

board of directors

Executive Directors

Mr Daniel CHIU, aged 50, is Executive Vice-Chairman and has been a Director since August 1993. Mr CHIU was Fortune Oil's Chief Executive prior to becoming Vice Chairman in October 1994. He is Chairman of Federal Asia Company Limited, a private trading company with extensive operations in China. He is founder of Harrow International School in Bangkok and Beijing. He is also a Non-executive Director of Far East Consortium International Limited, which is listed on the Stock Exchange of Hong Kong Limited, engaged in property and hotel investment.

Mr TEE Kiam Poon, aged 60, became Chief Executive in June 2010 and was a Business Development Director since 1 July 2009. He has over 30 years of experience working for BP and developed many of BP's joint ventures in Asia including BP's first Chinese LNG Joint Venture. His last position, prior to joining Fortune Oil, was as President for the Coal Venture Development. During his career in China, he has won "Friendship Awards" from the Fuzhou municipal government and the Fujian Provincial government. He has also been actively involved in Guangdong's Governor Advisory conference since its inception in 1999. Mr TEE was educated in Malaysia with B Sc (honors) majoring in Chemistry and MBA.

Ms LI Ching, aged 53, Chief Executive between April 2001 and June 2010, and Joint Chief Executive (Operation) in March 1999, Ms LI was a Non-executive Director of Fortune Oil between August 1993 and June 1998. She was appointed in 1990 as Executive Director of Kingsleigh Petroleum Limited, nominated by the PRC minority shareholders in the Kingsleigh Group. Previously she was Deputy Director of China North Industries Corporation (NORINCO), which she joined after graduating from The Economic and Financial Institute of Beijing.

Non-executive Directors

Mr QIAN Benyuan*, aged 66, Non-executive Chairman since 1997. Mr QIAN was President and CEO of China National Electronics Import and Export Corporation (CEIEC) between May 1995 and April 2005. He formally joined Fortune Oil PLC after retiring from CEIEC and continues to serve as Non-executive Chairman based in Beijing. Between 1996 and 2006, Mr QIAN was also Chairman of China Hewlett-Packard Co., Ltd, and between 2004 and 2007 he was a Director of Shenzhen Development Bank. Until 2009, he was a Director of the International Chamber of Commerce, China, a Committee Member of the China Council for Promotion of International Trade (CCPIT). He is currently a Vice-Chairman of China Association of Energy, a Vice-Chairman of the Coal Bed Methane Industry Association of Shanxi Province, China, and a Director of China Society of State-owned Assets Administration and a Director of China Environment Culture Promotion Association. His hard work and exceptional contribution earned him a number of honorary titles.

Mr Frank ATTWOOD†, aged 68, Senior Independent Director and Chairman of the Audit Committee. He was appointed Non-executive Director of Fortune Oil on 24 June 2009. He is a chartered accountant and was Deputy Chairman of the International Ethics Standards Board for Accountants until 31 December 2009. Mr ATTWOOD was formerly a member of the UK Auditing Practices Committee. For 30 years until 2004 he was an audit partner in RSM Robson Rhodes, during which time he was also CEO of RSM International and chairman of the UK member firm. Since retirement from that firm he has been a consultant and expert witness on accounting and auditing matters. Mr ATTWOOD is also a Non-executive director and chairman of the audit committee of Medical Protection Society and of Ridgeon Group, and is Chairman of Urenco UK Pension Trustee Company Ltd.

Mr WANG Jinjun*, aged 54, Non-executive Director. He was appointed in November 2003 and is Chairman of the Remuneration Committee. Mr WANG is based in Hong Kong and was Deputy Managing Director of Top Glory International Holdings Limited, a leading hotel management and real estate business which was listed on the Hong Kong Stock Exchange until September 2003, when it was privatised. He is also a director of China National Cereals, Oil and Foodstuffs Import & Export Corporation, The Gloria International Hotels Limited and has served as a senior official at China's Ministry of Foreign Trade.

board of directors

Mr Dennis CHIU†*, aged 52, Non-executive Director. Mr CHIU has been a Director of Fortune Oil since August 1993. He is also an Executive Director of Far East Holdings International Limited and Far East Consortium International Limited and a non-executive Director of Far East Hotels and Entertainment Limited in Hong Kong, Far East Group of companies is listed on the Hong Kong Stock Exchange Limited and is principally engaged in property development and hotel operations in China, Singapore and Malaysia. Mr CHIU received a BA degree from the University of Sussex.

Ms Louisa HO†, aged 46, was formerly Finance Director and currently a Non-executive Director since 1 September 2006. Ms HO joined Fortune Oil as Financial Controller in 1993 and was appointed as Deputy Chief Executive in August 2001 and became Finance Director in April 2004. Ms HO is a certified public accountant of Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of Association of Chartered Certified Accountants (FCCA). She has an MSc in Data Processing from the University of Ulster and a B Soc Sc from the University of Hong Kong. Before joining Fortune Oil, she worked in a range of positions in controller and operations departments at Esso Hong Kong Limited. She is also working for the Harrow group of international schools.

Mr Ian TAYLOR†*, aged 55, Non-executive Director. Mr TAYLOR was an Executive Director of Fortune Oil between August 1993 and June 1996. He relinquished his executive role and became a Non-executive Director on 16 June 1996. He is President and Chief Executive of the Vitol Group of companies. Vitol is a leading international petroleum trading company. He joined Vitol S.A. in 1985 from Shell where he held various positions in shipping, operations and trading. He was Managing Director of Vitol Asia Pte Limited between 1992 and 1994. Mr TAYLOR received an MA degree in Politics, Philosophy and Economics from Oxford University in 1978.

Mr ZHI Yulin, aged 45, Non-executive Director since November 2000. Mr ZHI graduated from Beijing Institute of Technology in 1985, Nanjing Institute of Technology in 1987 and received an EMBA at China Europe International Business School in 2000. He joined NORINCO in 1987 and has held various positions since then. He is currently the Vice President of NORINCO.

Mr MAO Tong, aged 53, Independent Non-executive Director since 30 November 2010. Mr MAO is the Managing Partner of the Hong Kong office of Bryan Cave LLP, a law firm. Mr MAO has over 20 years' experience of advising Fortune 100 companies, major Chinese state and private enterprises, private equity funds, technology companies and Chinese banks and financial institutions. He has been involved in more than 100 Chinese / foreign joint ventures and foreign owned enterprises operating in China.

Mr LIN Xizhong, aged 65, Independent Non-executive Director since 30 November 2010. Mr LIN has over 35 years of working for state owned mining and natural resources business in China and is an experienced financier. He was former Senior Vice President of China Minmetals Corporation, Director of AXA APH Holdings and Vice Chairman of First Pacific Bank, Hong Kong. Retried from Minmetals. Mr LIN is now Director and head of Audit & Risk Management Commission of China National Building Materials Group directly under SARSAC of China; Vice Chairman of General Nice Development Ltd., a Hong Kong company and also the major shareholder of Abterra Ltd, a Singapore-listed company, in which Mr LIN is also the Executive Vice Chairman. In 1990s, Mr LIN served as China's representative for the APEC Business Advisory Council (ABAC) for several years. He is currently a member of China's PECC (Pacific Economic Cooperation Council).

† Member of the Audit Committee

* Member of the Remuneration Committee

directors' report

The Directors present their Directors' Report and the audited group financial statements for the year ended 31 December 2010 ("financial statements").

Principal Activities

Fortune Oil PLC is the ultimate holding company of a group of companies (the "Group") whose principal activities focus on oil, natural gas and resource supply, operations and investments in China. During the year, the Group started pursuing opportunities to invest in high consumption commodities, in countries in close proximity to China and with the ability to meet the growing demands of the China market.

Details of the principal subsidiary undertakings, associated and subsidiary undertakings of the Company are listed in note 14 to the group financial statements on page 86.

Cautionary Statement

The purpose of the Annual Report is to provide information to the shareholders of the Company. The Annual Report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Company and the Group as a whole. By their nature, these statements involve uncertainties since future events and circumstances can cause results and development to differ from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of the Annual Report. Nothing in the Annual Report should be construed as a profit forecast.

Business Review

The Company is required by the Companies Act to set out in this report a fair review of the performance and development of the Group's business during the year, its position at the end of the year and a description of the principle risks and uncertainties facing the Group ("business review").

The information that fulfils the business review requirements can be found in the following sections of this report. All the information detailed in these sections is incorporated by reference into this report and deemed to form part of this report:

- Chairman's Statement on page 2;
- Chief Executive's Review on pages 4 to 6, which includes a review of the Key Performance Indicators;
- Business Review on pages 8 to 20, including a Corporate Social Responsibility and Environmental Review;
- Principal risks and uncertainties, their effects and our management strategy on pages 22 and 23; and
- Financial Review on pages 24 to 25.

The Group has a number of essential counterparties with whom it has contracts or arrangements in respect of its business activities. For Bluesky the joint venture partners are BP and China National Aviation Fuel Supply Company Limited (CNAF); jet fuel is sourced from other state oil companies and sold to airlines under short-term contracts. For Maoming SPM the Sinopec Group is the major joint venture partner and the sole provider of revenue under the term joint venture contracts. For the West Zhuhai Terminal PetroChina (CNPC) is the major joint venture partner and provider of contracted revenue.

The Group's gas distribution business has a variety of joint venture partners who bring expertise and relationships in ensuring successful business operations. These are principally state-controlled entities such as city governments and a PetroChina affiliate. Gas is purchased from state-controlled companies such as PetroChina, Sinopec and China United Coal Bed Methane Company (CUCBM) under short or long term contracts. The Group's CBM project at Liulin, in joint venture with Dart Energy Limited (previously Arrow Energy Limited), is governed by a term Production Sharing Contract with CUCBM. Since November 2008 Wilmar International Limited has owned 15 per cent in the Group's gas business but has no operational involvement. The Group's has entered into a cooperation agreement with Everthriving Investment Group, a privately owned Chinese LNG and natural gas business. The Group has acquired 65% of one Everthriving company which is planned to be involved in the conversion of ships to use LNG. The Group has agreements whereby it may acquire 65% of two further Everthriving companies.

Further details of the Group's joint ventures are in the notes to the group financial statements on pages 86 and 87.

Subsequent Events

1) Acquisition of significant stake in Armenian Iron Ore Mines
In January 2011, the Group invested a total of US$24 million for a 35% equity interest in Bounty Resources Armenia Limited, a company which controls three iron ore mines in Armenia with proven, probable and inferred reserves of 1,832 million tons.

2) Joint Venture Agreement Supplying LNG to Public Transport in Liaoning
In February 2011, the Group entered into a joint venture agreement with Shenyang Zhonglian Enterprise Development Co., Ltd and Able Field International Limited to provide Liquefied Natural Gas to public transit vehicles in Liaoning province, China. Subsequently, on 28 March 2011, the expansion of the natural gas business through 51% Liaoning Jinrun Natural Gas Ltd to supply the ceramic industry.

3) A memorandum of understanding with 7 alliance partners
The Group has signed a memorandum of understanding with Sinosteel Equipment & Engineering Co., Ltd, MCC-20 Group, Sinosteel Engineering Design & Research Institute Co. Ltd Shijiazhuang Design Institute, China Volant Industry Company, ProMet Engineers, Bounty Resources Armenia Ltd and SRK Consulting to take advantages of the alliance for the technical consulting services and skills to pursuing overseas investment opportunities to capitalise on the demand for energy and resources in China.

4) US$180 million new loan facility
On 4 April 2011, Fortune Oil has signed a US$180 million (£112 million) loan agreement with 13 Asia-Pacific regional banks with Morgan Stanley Asia Limited. The facility in denominated in USD with a term of three years, guaranteed by Fortune Oil and secured by share charges over its various Hong Kong subsidiaries.

Principal Risks and Uncertainties, their effects and our management strategy
The principal risks and uncertainties, their effects and our management strategy are given on pages 22 to 23.

Going Concern Statement
The Group's business activities and associated opportunities and risks are set out in the business review on pages 8 to 20. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review set out on pages 24 to 25. In addition, note 26 to the group financial statements includes the Group's objectives, policies and processes for its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk and liquidity risk.

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

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

As at 31 December 2010, the Group had a cash balance of £100.3 million and a net cash balance of £28.9 million. In addition, the Group expects to generate positive cash flow from operations. The Group's current forecasts and projections, adjusting for reasonably possible changes in trading conditions, show that the Group will be able to meet its obligations under the loan agreements and to operate within the required covenants.

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

Results and Dividends

The audited results for the year ended 31 December 2010 are set out in the Group income statement on page 64.

The Group's net profit for the year ended 31 December 2010 attributable to owners of the parent amounted to £13.1 million (2009: £8.8 million). No interim dividend was paid during the year 2010.

Dividend Policy

The Board, recognising the stage of development achieved by the Group and the level of net post tax profits for the year ended 31 December 2010, has determined that it would be appropriate to commence paying a dividend to shareholders. The Board has determined that the first dividend should be 0.13 pence per share (2009: nil) which represents a pay-out rate of approximately 20% of net post tax profits attributable to shareholders.

Subject to shareholders approval at the Annual General Meeting, the dividend will be paid on 24 June 2011 to shareholders on the register on 20 May 2011.

The Board considers that it is appropriate given the irregularity of earnings over the year that one dividend payment will be made per year.

Key Performance Indicators

Details of the Key Performance Indicators (KPIs) monitored by the Board are included on page 7.

Corporate, Social and Environmental Responsibility

The Group is committed to complying with the Health, Safety and Environmental regulations and requirements of China and elsewhere in the world where it is operating and to protecting the health, safety, welfare and security of its employees and all personnel affected by and involved in its operations and activities. The Group has a primary and continuing commitment to minimise the impact of its activities on the environment. Details are set out on pages 19 and 20. A Health, Safety and Environment Policy Statement approved by the Board has been posted on the Company's website, www.fortune-oil.com

The Board has approved the Code of Ethical Principles in late 2010 and these apply to the Company and to all its managers, employees and contractors. Details are given in the Corporate Governance section.

Charitable and Political Contributions

No political donations or contributions were made or expenditure incurred by the Group during the year (2009: nil).

No charitable donations were made or expenditure incurred by the Group in 2010 (2009: nil).

Research and Development

There were no significant Research and Development activities by the Group in 2010 (2009: nil).

Corporate Governance Statement and Remuneration Report under the Disclosure and Transparency Rules (DTR) 7.2.5R and 7.2.7R

The corporate governance statement on pages 38 to 47 forms part of this Directors' Report.

The report on Directors' remuneration (the "Remuneration Report") is set out on pages 48 to 60.

An ordinary resolution to approve the Remuneration Report on pages 48 to 60 of the Annual Report will be put to the shareholders at the Annual General Meeting (AGM) on 14 June 2011.

Directors

All the Directors served throughout the year (except as noted) were as follows:

Executive Directors

1. Daniel Tatjung CHIU (Vice-Chairman)
2. TEE Kiam Poon (Chief Executive)
3. LI Ching
4. John PEXTON – resigned on 15 June 2010
5. GONG Min – resigned on 15 June 2010
6. TIAN Jun – resigned on 15 June 2010
7. YE Qing – resigned on 15 June 2010

Non-executive Directors

1. QIAN Benyuan* (Chairman)
2. Frank Albert ATTWOOD† (Senior Independent Director)
3. WANG Jinjun*
4. Dennis Tatshing CHIU*†
5. Ian Roper TAYLOR*†
6. Louisa Yuk-king HO†
7. ZHI Yulin
8. MAO Tong (Independent Director) – appointed on 30 November 2010
9. LIN Xizhong (Independent Director) – appointed on 30 November 2010

* Member of the Remuneration Committee

† Member of the Audit Committee

Brief particulars of the Directors in office at the date of this report are on pages 26 and 27.

Directors' election and rotation

MAO Tong and LIN Xizhong were appointed to the Board after the last AGM and in accordance with the Articles of Association retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

Louisa HO and WANG Jinjun, having been appointed since the 2008 AGM, are required by the Articles of Association to stand for election at the forthcoming AGM.

Dennis CHIU, Ian TAYLOR, QIAN Benyuan and ZHI Yulin, as Non-executive Directors with more than nine years service, will retire under the provisions of the Combined Code, and, being eligible, will offer themselves for re-election at the forthcoming AGM.

With the exception of TEE Kiam Poon, an Executive Director who has a service contract, none of other Executive Directors have a Directors' service contract. Each such Executive Director has letter of appointment and they are available for inspection.

The Board has given consideration to the balance of skills, knowledge and breadth of experience on the Board and the manner in which each of the retiring Directors contributes to that balance. Following the performance evaluation of the Board, its Committees and individual Directors, conducted shortly after the 2010 year end, the Board is satisfied that all the Directors including the Chairman continue to contribute effectively and demonstrate commitment to their roles on the Board and the Board Committee. The remaining Directors unanimously recommend the re-appointment of each Director standing for re-election.

Directors' Interests in Shares

The interests of Directors and their connected persons in the issued capital of the Company are given in the Remuneration Report, page 56. Other than as disclosed therein, none of the Directors had any material interest in any contract of significance to which the Company or any of its subsidiaries were a party during the financial year ended 31 December 2010.

Following the implementation of the EU Takeover Directive into UK law, the following description provides the required information for shareholders where not already provided elsewhere in this report.

Articles of Association

The Company adopted new Articles of Association (the "New Articles") at the AGM in 2010. These were adopted primarily to take account of changes in English company law brought about by certain provisions of the Companies Act 2006, which came into force on 1 October 2009 and the implementation in the UK of the Companies (Shareholders' Rights) Regulations 2009 on 3 August 2009. The following information is given pursuant to section 992 of the Companies Act 2006 and reflects the Articles as they currently stand.

Amendment of the Company's Articles of Association

Any amendments to the Company's Articles of Association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

1) Structure of the Company's share capital and rights and obligations attaching to shares

As at the date of this Report, 1,987,466,715 ordinary shares of 1p each are fully paid and being the total number of Fortune Oil PLC shares with voting rights. The Company currently has only one class of shares and the shares are listed on the London Stock Exchange.

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

Details of changes to share capital as at 31 December 2010 and of options under the Group's employee share schemes are shown in notes 23 and 24 to the group financial statements.

The rights attaching to the ordinary shares are detailed in the Company's Articles of Association (the "Articles").

The Articles may be changed with the agreement of the shareholders by the passing of a special resolution at a general meeting.

Subject to the provisions below, shareholders may attend any general meeting of the Company and, on a show of hands, a qualifying person (being an individual who is a member of the Company, a person authorised to act as the representative of a corporation or a person appointed as a proxy of a member) who is present at a general meeting shall have one vote on each resolution and, on a poll, every shareholder who is present or by proxy shall have one vote on each resolution for every ordinary share of which they are the registered shareholder.

A resolution put to the vote of a general meeting is decided on a show of hands unless before, or on the declaration of the result of, a vote on show of hands, a poll is demanded by the chairman of the meeting, or by at least five shareholders (or their representatives) present in person or by proxy and having the right to vote, or by any shareholders (or their representatives) present in person or by proxy and having at least 10% of the total voting rights of all shareholders, or by any shareholders (or their representatives) present in person or by proxy and holding ordinary shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

There are no restrictions on the transfer of shares, or limitations on the holding of shares. No ordinary shares carry any special rights with regard to control of the Company. Major shareholders have the same voting rights per share as all other shareholders. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and there are no known agreements on restrictions on share transfers or on voting rights.

Shares acquired through the employee share schemes and the Senior Executive Incentive Plan (the "Plan") rank equally with other shares in issue.

As at 31 December 2010, 6,700,000 ordinary shares were held in the Company's Employee Benefit Trust subject to options granted to employees (none of whom are Directors) as follows:

(1) 493,421 ordinary shares with respect to the options exercisable at 6.08p per share which are exercisable between 8 June 2008 and 7 June 2015 under the 2004 Approved Scheme;

(2) 4,856,579 ordinary shares with respect to the options exercisable at 6.32p per share which are exercisable between 8 June 2008 and 7 June 2015 under the 2004 Unapproved Scheme; and

(3) 1,350,000 ordinary shares with respect to the options exercisable at 11.75p per share which are exercisable between 25 June 2011 and 24 June 2018 under the 2004 Unapproved Scheme,

or, in each case, if earlier, exercisable on the date of cessation of employment with a Participating Company as defined in the rules of the 2004 Approved Scheme or the 2004 Unapproved Scheme, as relevant (as detailed in the Remuneration Report). The share options referred to in (1), (2) and (3) were granted by the Trustee of the Company's Employee Benefit Trust on the recommendation of the Remuneration Committee of the Board.

Employee Benefit Trust (the "EBT" or the "Trust")

The EBT is capable of acquiring shares, by purchase or by subscription, at a price not less than the nominal value of an ordinary share of 1p each in the Company and of using any such shares for the purposes of satisfying options under the Company's 2004 Approved Scheme, 2004 Unapproved Scheme and of the Senior Executive Incentive Plan (the "Plan") or as otherwise determined by the Trustee. No shares were acquired by the EBT during the year.

During 2010, 1,602,713 ordinary shares had vested unconditionally and 608,006 shares were transferred out of the EBT by the beneficial owner.

As at 31 December 2010, the EBT held 89,810,919 ordinary shares of which 6,700,000 shares are the subject of options, 994,707 have vested conditionally and have been left in the EBT by 5 participants and a further 3,984,594 shares have conditionally vested for 6 participants. The balance of 78,131,618 shares is available for further awards.

Of the shares awarded pursuant to the Plan, 608,006 were withdrawn from the EBT by eligible beneficiaries. A further 100,000 shares were exercise of an option withdrawn having been utilised to satisfy an option granted under the 2004 Unapproved Scheme.

The Trustee of the EBT is free to exercise the voting rights attributable to all shares held by the Trust as they think fit. Neither the Board nor the Remuneration Committee have indicated to the Trustee whether or how they would wish the Trustee to vote on any matters.

A shareholder whose name appears on the Company's register of members can chose whether his shares are evidenced by share certificates (i.e. in certificated form) or held in electronic (i.e. uncertificated) form in CREST (the electronic settlement system in the UK).

The holders of ordinary shares are entitled to: (i) receive dividends (when declared); (ii) receive copies of the Company's reports and accounts; (iii) to attend and speak at general meetings of the Company; (iv) to appoint proxies; and (v) to exercise voting rights.

Any form of proxy sent by the Company to shareholders in relation to any general meeting must be delivered to the Company, whether in written form or in CREST proxy form, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment of a proxy proposes to vote. Calculation of any such time periods shall not take account of any part of a day that is not a working day.

No shareholder is, unless, the Board decides otherwise, entitled to attend or vote (either personally or by proxy) at a general meeting or at any separate meeting of the holders of the class of shares, or to exercise any other right arising by virtue of his shareholding in relation to any such meeting if he or any person who appears to have an interest in the shares has been sent a notice under s.793 of the Companies Act 2006 which confers upon public companies the power to require information with respect to interests in their voting shares and he or any interest person failed to supply the Company with the information requested within the prescribed period of time as stipulated in Article 40.

The Board may refuse to register a transfer of a share which is not fully paid or the transfer of a share on which the Company has a lien. The Board may also refuse to register a transfer of a certificated share unless: (i) the instrument of transfer is lodged, duly stamped, at the registered office of the Company or at such other place as the Board may appoint and is accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right the transferor to make the transfer; (ii) is in respect of only one class of share, and (iii) is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share providing that the refusal is in accordance with the regulations governing the operation of CREST. The Board may at its discretion suspend the registration of transfers, for up to 30 days in any one year. The Board cannot suspend the registration of transfers of any uncertificated shares without first gaining the consent of CREST. There are no other limitations on the holding of ordinary shares in the Company.

If at any time the capital of the Company is divided into different classes of shares, the special rights attaching to any class may be varied either while the Company is a going concern or during or in contemplation of a winding up:

i. in such manner (if any) as may be provided by those rights; or
ii. with the written consent of the holders of at least 75% in nominal value of the issued shares of the class, or
iii. with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

2) Significant holders of the Company's shares

Other than as stated below, as far as the Company is aware, there are no persons with significant direct or indirect holdings in the Company.

As at the date of this Report, the Company has been informed of, in accordance with the DTR issued by the FSA, the following notifiable voting rights in the Company's issued share capital:

	Number of ordinary shares held	**Percentage of issued share capital/voting rights**
First Level Holdings Limited[1]	647,244,897	32.57
Goldman Sachs Securities (Nominees) Limited ILSEG ACCT[2]	78,397,715	3.95
HSBC Global Custody Nominee (UK) Limited[3]	84,828,800	4.27
JTC Trustees Limited[4]	89,810,919	4.52
Vidacos Nominees Limited[5]	147,108,505	7.40

Each ordinary share carries one voting right.

[1] First Level Holdings Limited is a company in which the majority of shares are owned by Daniel Chiu and the remainder by Dennis Chiu.

[2] First Level Holdings Limited has the beneficial interest in 78,390,715 shares in Goldman Sachs Securities (Nominees) Limited ILSEG ACCT, representing 3.94% in the issued share capital.

[3] Kerry Holdings Limited, the main investment holding company of the Kuok Group in Hong Kong, has the ultimate beneficial interest of 84,828,800 ordinary shares registered in the name of HSBC Global Custody Nominee (UK) Limited. The Kuok Group is a strategic investor of Fortune Oil PLC. Wilmar International Limited, in which the Kuok Group also has interests, also invested US$36 million (£22.3 million) and owns 15 per cent in Fortune Gas Investment Holdings Limited in 2008.

[4] JTC Trustees Limited is the Trustee for the Company's Employee Benefit Trust under the Senior Executive Incentive Plan.

[5] Vitol Energy (Bermuda) Limited has the beneficial interest in Vidacos Nominees Limited.

Save for the above, no person has notified any interest of 3 per cent or more or any non-material interest equal to or more than 10 per cent of the issued ordinary share capital or in the voting rights of the Company.

3) Appointment and replacement of Directors
The rules in relation to the appointment and replacement of Directors are contained in the Articles.

The Articles provide that Directors may be appointed by an ordinary resolution of the shareholders or by a resolution of the Directors, provided that, in the latter instance, a Director appointed in this way retires at the first AGM following his appointment and may be re-appointed.

The Articles require that every Director submit himself for re-appointment every three years and will retire and seek re-appointment at the next AGM. The Company's shareholders may remove a Director before the expiration of his period of office by passing an ordinary resolution of which special notice has been given. The office of a Director shall be vacated if:

i. he ceases to be a director by virtue of any provision of the Act or he becomes prohibited by law from being a director; or
ii. he becomes bankrupt or makes an arrangement or composition with his creditors generally; or
iii. he is, or may be, suffering from a mental disorder; or
iv. he resigns by notice in writing to the Company; or
v. he has missed Directors' meetings for a continuous period of six months without permission and the other Directors resolve that he shall cease to be a Director; or
vi. all other Directors require him to resign by notice in writing.

The Articles may be amended by a special resolution of the members.

4) Power of Directors
The powers of the Directors are determined by English law and the Articles provide that the Directors may exercise all the Company's powers provided that the Articles or applicable legislation do not stipulate that any such powers must be exercised by the shareholders. The Directors have been authorised to issue and allot ordinary shares and have authority to make purchases of its shares (subject to provisions in the Companies Act).

5) Change of control
There are no significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control following a takeover bid.

The Company does not have agreements with any Director or Officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes may cause options and awards granted under such plans to vest on a takeover.

Directors & Officers Liability Insurance
The Company has purchased and maintained appropriate insurance cover for its Directors and Officers and those of its subsidiary companies under a Directors' and Officers' liability insurance policy, as permitted by the Companies Act 2006.

Directors' Interests and Indemnity
At no time during the financial year ended 31 December 2010 did any Director have a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than the service contract and letters of appointment between each of the Directors and the Company.

As at the date of this Report, qualifying third party indemnity provisions under the Companies Act 2006) are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by s.234 Companies Act 2006 as applicable, against any claims from third parties in respect of certain liabilities arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries.

Neither the insurance nor the indemnity provide cover in the event that the Director is proved to have acted fraudulently or deceitfully.

No claims have been made either under the indemnity or the insurance policy.

Directors' conflicts of interest

Provisions in the Articles permit the Board to consider and, if thought fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the company. Directors are required to give advance notice of any conflict issues to the panel via Company Secretary to declare situational conflicts that can be considered for authorisation by the remaining members of the Board. Directors are excluded from the quorum and the vote in respect of any matters in which they have an interest.

Policy for Payment of Creditors

The Company's policy with respect to any contracts with its suppliers is to: (i) fix terms of payment when agreeing the terms of each business transaction; (ii) ensure that the supplier is aware of those terms; and (iii) to abide by the agreed terms of payment. As at 31 December 2010, trade creditors of the Group were equivalent to 52 (2009: 77) days' purchases, based on the average amount of creditors and the cost of inventories.

Financial Instruments and Risk Management

Note 26 to the group financial statements on pages 96 to 99 include information on the Company's use of financial instruments.

Details of the Group's financial risk management objectives and policies are included in note 26 to the Group financial statements.

Auditors

Deloitte LLP provide non-audit services to the Group, which are set out in note 4 to the group financial statements. The Directors are satisfied, and will continue to ensure, that Deloitte's services are in compliance with the relevant ethical guidance of the accountancy profession and do not impair the judgement or independence of the auditors.

The Audit Committee continues to review the auditors' independence and effectiveness. The auditors are subject to re-appointment on an annual basis.

Deloitte LLP have expressed their willingness to continue in office as auditors of the Company and an ordinary resolution reappointing them as auditors and authorising the Directors to set their remuneration will be proposed at the forthcoming AGM on 14 June 2011.

Annual General Meeting (AGM)

The AGM will be held at 11am on Tuesday, 14 June 2011 at the Oriental Club, Stratford House, Stratford Place, London W1C 1ES, United Kingdom. At the 2011 AGM, resolutions will be proposed, amongst other matters, to: (i) declare a final dividend (ii) receive the Annual Report and Financial Statements (iii) approve the Remuneration Report; (iv) elect and re-elect Directors; (v) re-appoint Deloitte LLP as auditors; (vi) renew both the general authority of the Directors to issue shares and to authorise the Directors to issue share without applying the statutory pre-emption rights; and (vii) to authorise the Directors to hold general meetings at 14 clear days' notice (where this flexibility is merited by the business of the meeting and is thought to be in the interest of shareholders as a whole).

At the AGM held in June 2010, the Company was authorised by shareholders to purchase its own shares, within certain limits and as permitted by the Articles of Association. The Company made no purchases of its own shares. The similar authority will not be proposed at the forthcoming AGM.

The Notice convening the AGM is being sent to shareholders separately with this Report. The resolutions for the AGM are set out in detail in the Notice of Annual General Meeting, which is also available on the company's website, www.fortune-oil.com

Electronic communications

The Company provides documentation and communication to shareholders via its website, except to those shareholders who elect to receive paper copies by post. Electronic copies of the 2010 Annual Report and the Notice of Annual General Meeting will be posted on the Company's website, www.fortune-oil.com The Company's announcements to the Stock Exchange are also available on line through the website.

Shareholders wishing to change their election and receive documents in hard copy form can do so at any time by contacting the Company's Registrar or by logging on to www.capitashareportal.com

Electronic proxy voting

The Company provides electronic proxy voting for this year's AGM. Shareholders who are not Crest members can appoint a proxy and vote online for or against the resolutions to be proposed at the AGM by visiting www.capitashareportal.com The onscreen instructions will give details on how to complete the appointment and voting process.

Paper proxy forms will be distributed with the Notice of Annual General Meeting to all shareholders other than those who have elected for notification by email.

Statement on disclosure of information to Auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the requirements of section 418 of the Companies Act 2006.

For these purposes, relevant audit information means information needed by the Company's auditors in connection with preparing their Audit Report, set out on pages 62 to 63.

A Statement of the Responsibilities of the Directors for preparing the Group and the Company financial statements and a responsibility statement as required by the Disclosure and Transparency Rules is set out on page 61.

By order of the Board

Sandi CHOI
Company Secretary
27 April 2011

corporate governance

Combined Code compliance

Listed companies with a Premium Listing of equity shares in the UK are required under the Listing Rules to describe how they have complied with the principles of the Combined Code on Corporate Governance Code published by the Financial Reporting Council in June 2008 ("the Code") which applies for the period covered by this report.

Directors consider that the Company has complied with the main principal requirements of the Code throughout the year ended 31 December 2010 and to the date of this report. The Board believes the Company has been in compliance with the provisions set out in Section 1 of the Code with the following exceptions, which the Directors do not consider to be fundamental to the exercise of good corporate governance.

Areas of Non-Compliance

Provision A.3.1 provides that the Board should determine whether a Non-executive Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Company acknowledges that six Non-executive Director's are not considered to be independent as defined in the Code. As a result the Company did not comply with provision, A.3.2 for part of the year whilst new independent non-executive directors were being appointed and with provision, B.2.1 and C.3.1 relating to the number of independent directors on the audit and remuneration committees, respectively.

Provision A.4.1 states that the Board should establish a Nomination Committee comprising a majority of independent Non-executive Directors to make recommendations to the Board on all new Board appointments. The Board has not established a separate Nomination Committee performing the function of selecting and appointing new directors itself.

The Company has not complied with provision B.2.2 which requires the Remuneration Committee to be responsible for setting the Chairman's remuneration. The Remuneration Committee comprises the four Non-executive Directors, which includes the Chairman who is also a Non-executive Director. The setting of the Chairman's remuneration is the responsibility of the Executive Committee which the Board believes to be more appropriate.

This report, together with the Directors' Report and the Remuneration Report on pages 28 to 37 and 48 to 60, describes how the Board applied the principles of good governance and complies with the Code.

The Board and Board composition

During the year, Mr WANG Jinjun having entered into business venture with the Vice-chairman of the Company ceased to be an independent Director.

As part of the review of the effectiveness of the Board and its committees it was determined that the management had become over represented and that there was a need to strengthen the independent non-executive directors' representation. As a result in June 2010 four executive directors, John PEXTON, GONG Min, TIAN Jun and YE Qing stepped down as directors and a further two independent non-executives were appointed to the Board subsequently in November 2010.

As the date of this Report, the Board comprises 12 directors: three Executive Directors and nine Non-executive Directors.

The three Executive Directors are Daniel CHIU (Vice-Chairman), TEE Kiam Poon (Chief Executive) and LI Ching.

QIAN Benyuan is the Non-executive Chairman.

There are three independent Non-executive Directors, Frank ATTWOOD, MAO Tong and LIN Xizhong. Frank ATTWOOD is the Senior Independent Director.

The Non-executive Directors who take a role in Board Committee meetings are QIAN Benyuan, Frank ATTWOOD, WANG Jinjun, Dennis CHIU, Louisa HO and Ian TAYLOR. Frank ATTWOOD is the Chairman of the Audit Committee and WANG Jinjun is the Chairman of the Remuneration Committee.

MAO Tong and LIN Xizhong were appointed to the Board on 30 November 2010 and joined in the Risk Monitoring Panel of which Frank ATTWOOD is also a member.

The other Non-executive Director, ZHI Yulin, Vice-president of NORINCO, which currently owns 1.7% of the issued shares of the Company.

None of the PRC minority shareholders has any automatic right to representation on the Board.

Biographical details of the Directors currently in office are shown under board of directors on pages 26 to 27 of this Annual Report.

Board responsibilities and procedures

The Board is collectively responsible for promoting the success of the Company and for providing entrepreneurial leadership within a framework of prudent and effective controls that enable risk to be assessed and managed. The Directors' biographies demonstrate that the Directors have a range of experience and are of sufficient calibre to bring independent judgment on issues of strategy, performance and resources.

The Board has adopted a formal schedule of matters, which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues. These matters include:

- Group strategy;
- Business planning;
- Major capital expenditure, acquisitions and divestments;
- Annual and half-year financial results and interim management statements;
- Internal control system and risk management;
- Health, Safety and Environment policies;
- Board appointments and removals and the related terms;
- Company Secretary appointment and removal;
- Senior management structure, responsibilities and succession plans
- Directors' conflicts of interest; and
- Dividend Policy.

To enable the Board to discharge its duties, all Directors are provided with relevant information in a timely manner by means of briefing papers distributed in advance of Board meetings and on an ad hoc basis where necessary. The Board meets both physically and by teleconference and at these meetings the Board reviews business performance, ensures adequate financing, sets and monitors strategy, examines investment and acquisition opportunities. Authority for implementing the strategy and decisions taken by the Board is delegated to the Executive Directors and senior executives of the Group (the Executive Committee). The Executive Committee is responsible for the day-to-day running of the Group's business and reports the performance of the Group to the Board and provides timely and accurate information to enable the Board to make decisions. Other responsibilities are delegated to the Audit Committee and the Remuneration Committee, which operate within defined terms of reference.

During the year, the Board as a whole rather than a Nomination Committee considered new Board appointments. In making appointments the Board considers the recommendation from a Nomination Panel comprising Directors selected from time to time to pre-vet potential appointees and to set parameters as regards the particular skills, knowledge and experience that would most benefit the Board and may use external recruitment consultants to provide a shortlist of potential interviewees and recommendations for the Board to consider. The Board is responsible for considering succession planning and the appointment and removal of its own members.

Through the Group's internal networking, the Nomination Panel identified and recommended the candidates for the position as independent Non-executive Directors and MAO Tong and LIN Xizhong were appointed to the Board on 30 November 2010.

Chairman and Chief Executive

The role of Chairman (Non-executive) and Chief Executive are separate, ensuring a clear division of responsibility. The Chairman assisted by the Vice-Chairman is responsible for the leadership of the Board, while the Chief Executive is responsible for the development and implementation of policy and strategy and for the day-to-day operations of the Group.

Board support

All Directors have access to the advice and services of the Company Secretary (whose appointment or removal is a matter for the Board as a whole) who is responsible for ensuring Board procedures are followed and that all applicable rules and regulations are complied with. All Directors, including Non-executive Directors, are able to take independent professional advice if necessary, at the Company's expense, in the furtherance of their duties as Directors.

Induction and professional development

On appointment, new Directors receive a comprehensive induction to the Group's business including site visits, meetings with senior management across the business and Group functions and meetings with major shareholders. As an ongoing process, Directors visit operating divisions and local management on a regular basis. Directors are briefed and kept informed of changes and developments in the business and on legislative and regulatory issues, as appropriate.

The training needs of Directors are periodically discussed at Board meetings and additional training requirements are identified through an annual evaluation performance process. During 2010, Directors attended an in-house training session on "tax, anti-corruption and corporate governance" in London and in January 2011, seminars regarding the Bribery Act were held in Hong Kong and Beijing. Training and development for Directors were implemented in a more personalised approach with a specific budget allocation, taking into account their individual professional development.

Executive Directors' external non-executive directorships

The Board has not imposed a formal policy in relation to the number of external directorships that an Executive Director may hold. However, as part of their on-going development, the Executive Directors may seek an external Non-executive role on a non-competitor board, for which they may retain the remuneration in respect of the appointment. In order to avoid any conflict of interest, all appointments are subject to the Board approval and the Board monitors the extent of Directors' other interests to ensure the effectiveness of the Board is achieved. Mr CHIU is non-executive director of a Hong Kong listed company and also the founder of Harrow International School in Bangkok and Beijing. The fee retained for his non-executive directorship of the Hong Kong listed company in the Far East Group in 2010 was £2,085 per annum (HK$25,000) for Far East Consortium International Limited and nil from Far East Holdings International Limited from which he had resigned on 7 June 2010. The Board is satisfied that the Executive Vice-Chairman's other commitments would have no material effect on the time which he would have available to commit to the Company.

Independence/Non-Executive Directors

Non-Executive Directors are appointed for specified terms of two years, subject to a maximum of up to 1 month's notice within that period and also subject to re-election and to Companies Act provisions relating to the removal of Directors. Each of the Non-executive Directors, including the Chairman, currently has a letter of appointment with the fixed time commitments of not less than 35 days a year. The terms and conditions of appointment of Non-executive Directors are available for inspection and a sample letter of appointment is available on the Company's website, www.fortune-oil.com. The Board is also kept informed of the Directors' other significant commitments and is satisfied that these do not conflict with their duties as a Director of the Company.

As required by Code provision A.4.3, the Chairman's other significant commitments are his directorships of China Society of State-owned Assets Administration, China Environment Culture Promotion Association and his vice-chairmanships of China Association of Energy and the CBM Industry Association of Shanxi Province, China. The Board is satisfied that these appointments do not conflict with the Chairman's ability to carry out his duties and responsibilities and to perform his role as Chairman effectively.

All new Directors are required by Company's Articles of Association to be elected by shareholders at the first Annual General Meeting after their appointment by the Board. Subsequently they are subject to re-election by shareholders every three years. A Non-executive Director who has served on the Board longer than nine years is subject to annual re-election in accordance with the Code. The Board is satisfied that all the Directors standing for re-election continue to perform effectively and to demonstrate commitment to their role including commitment of time for Board and/or committee meetings as appropriate. The Directors seeking re-election at the 2011 Annual General Meeting are noted in the Directors' Report on page 31 of this Annual Report and in the Notice of AGM.

Indemnities

In accordance with the Company's Articles of Association, Directors have been granted an indemnity permitted by law in respect of liabilities incurred as a result of their office. The indemnity would not cover where the relevant director or officer has acted fraudulently or dishonestly. Throughout the year the Company has also maintained Directors' and Officers' Liability Insurance cover in respect of legal action against the Directors and other officers of the Group.

Board Performance Evaluation

The Board completed an internal performance evaluation of its own performance and of its Committees and individual Directors for the year 2010. The performance evaluation was primarily based upon answers to questionnaires, which had been updated since the previous year's evaluation. A Review Panel comprising a Non-executive Director, the Chairman and Senior Independent Director discussed their views and gave feedback based on individual questionnaires. The results of the evaluation were reported to the Board and where areas for improvement have been identified, actions have been agreed. Relevant matters considered in discussion with Directors and Board performance included:

- evaluation of the appropriate strategy and resources in place for the group development;
- the balance of skills, knowledge and experience on the Board against current and future needs of the Company development in the year ahead;
- the structure of the Board as to the appropriateness of its business nature, functional administration and cultural mix;
- frequency of formalised communications between Board members and between the Board and its Committees;
- size and composition of the Board;
- the effectiveness of the Board Committees;
- thorough understanding of the relevant industry sector and market place;
- Directors' training/continuing professional development;
- risk management & controls;
- access to management; and
- governance.

The Directors concluded that the performance evaluation identified areas where directors felt that they required further management input, exposure to the operating businesses and/or further training and these matters are being addressed in 2011. The Board and its Committees operated effectively and the individual Directors were each contributing to the overall effectiveness of the Board.

The evaluation of the Chairman encompasses the general management and conduct of Board meetings, the quality of discussion and the extent to which Board meetings are focusing on the right issues. The Senior Independent Director and a Non-executive Director reviewed and evaluated the performance of the Chairman who was not present. They concluded that the Chairman continues to perform effectively and demonstrated commitment to the role of Chairman.

Directors' conflicts of interest

Directors are required to notify the company secretary of any potential conflicts of interest when they are appointed to the Board and, following appointment, as new potential conflicts arise. These notifications are then considered and authorised by the Board. The Board considers the extent to which such notified conflicts should be authorised and such authorisation can only be done in advance.

These procedures have been applied during the year and are now included as a regular item for consideration by the Board at its meetings.

Directors Duties in relation to s.172 of the Companies Act 2006

Following the relevant provisions in the Companies Act 2006 relating to the duties of Directors, there is a statutory obligation to act in good faith and to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to certain matters set out in s.172 of the Companies Act 2006. These matters include having regard to the interests of the Company's employees, the need to foster the Company's business relationships with supplier and others, the impact of the Company's operations on the community and environment and the desirability of the Company maintaining a reputation for high standards of business conduct. In reaching decisions on the operations and development of the Group the Directors recognise these factors in their decisions as follows:

1. Employees

The Company is committed to equal opportunities to all people in their recruitment, training and career development and fair treatment to all employees regardless of their nationality, age, ethnic group, race, religious beliefs or gender, with selection only subject to satisfying the operational requirements in country of deployment.

The Company believes that health and safety for our staff and our community are paramount. The Company's policies and philosophies for Health, Safety and the Environment (HSE) are incorporated in the Staff Handbook and are available on the Company's website.

2. Ethical and community business practice

The Company expects employees to have high ethical standards in all activities and the Staff Handbook details the Company's code of conduct and anti-corruption measures including that for business gifts. Offering or receiving bribes is not permitted and all employees are required to maintain fair commercial behaviour with good judgment.

The Board approved in late 2010 the Code of Ethical Principles for the operations where the Group does not have a direct management control. They are:

- Obeying the laws and regulations in the countries which the Group operates;
- Conducting operations in accordance with accepted principles of good corporate governance;
- Managers and employees respect the dignity of the individual and follow the ILO Core Conventions;
- Business dealings should respect the Group's business principles;
- Open communications within the bounds of commercial confidentiality and regulatory constraints;
- Business integrity;
- Full disclosures in any circumstances that could give rise to a potential conflicts of Interests;
- Promoting and defending the Company's legitimate business interests;
- Operations in accordance with the principles of fair competition; and
- Making a positive social contribution to the community.

Employees are made aware that obligations apply to them as a Group, whether working in China, Hong Kong, UK or elsewhere. These include maintaining confidentiality of the Company's operations, precluding insider trading, acting in an ethical manner and avoiding conflicts of interest. The Group's operating companies also provide assistance to their local community, for example through organising safety training programmes for gas customers and promoting local cultural activities.

3. Relationship with customers and suppliers

Long-term business relationships are always built on trust, quality, innovation and flexibility. The Company recognises its responsibilities and carries out its business with high integrity with both customers and suppliers. For over eighteen years Fortune Oil has been developing and operating projects for the safe and reliable supply of fuels to business and households; the joint venture partners in these businesses typically include state-controlled companies who are long-term suppliers of fuels to the projects.

4. Environment

The Company assesses its impact on the environment as part of its operational controls, for example through assessment of greenhouse gas emissions. Environmental impact studies and permits are required for certain projects, which have to be agreed with regulatory authorities.

Board Committees

The Board may delegate any of its powers to any committee consisting of at least two Directors. The Board has established an Executive Committee, a Remuneration Committee and an Audit Committee with delegated duties and responsibilities. Whilst only Committee members are entitled to attend meetings, other Directors are invited to attend from time to time to ensure the Committees' responsibilities are undertaken with access to the Board's full breadth of knowledge and experience.

The Company Secretary is the Secretary for all these Committees. The terms of reference of the Audit Committee and Remuneration Committee are available on the Company's website, www.fortune-oil.com.

Board and Committee meetings

The Company's Non-executive Directors are considered as either "management Non-executive" and "investment partner Non-executive." While the management Non-executives take an active role in the management of the Company, including attending Board meetings and forming part of the Board Committees and panels, the investment partner Non-executive was appointed to the Board for his connections in China which assist the Group's business operations. The investment partner Non-executive does not normally attend Board meetings of the Company and is not a member of Board Committees of the Company.

The Board meets regularly during the year as well as on ad hoc basis, as required by the business need. The Board determines the Company's business strategy and provides the leadership to ensure its strategic aims can be achieved. As a result, the Board has delegated principal responsibility for the development of the Company to the Executive Committee.

The Executive Committee Directors meet informally with individual Non-executive Directors on a regular basis at their individual operational sites to obtain their views on Board and business matters. In addition, when Directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to convey their thoughts and make their views known to the Vice-Chairman prior to the meeting. It should be noted that the time commitment expected from Non-executive Directors is not limited to attendance at Board meetings. Their time is spent visiting the Group's businesses and attending Company events. Meetings between the Non-executive Directors, without the presence of Executive Directors are scheduled and held during the year. Such sessions help to give a balanced overview of the Company. The Executive Directors and Non-executive Directors also meet outside formal meetings to discuss business issues. The investment partner Non-executive is also available for consultation on specific issues falling within his particular fields of expertise. The Board is satisfied that all the Directors are able to devote sufficient time to their duties to the Group.

As required by Code provision A.1.2, the total number of Board and Committee meetings held during the year to 31 December 2010 and individual attendance by Directors are shown below:

	Board (maximum 8)	Executive Committee (maximum 1)	Audit Committee (maximum 3)	Remuneration Committee (maximum 2)
Executive Directors				
Daniel CHIU	7	1	N/A	N/A
TEE Kiam Poon	7	1	N/A	N/A
LI Ching	8	1	N/A	N/A
John PEXTON	4	–	N/A	N/A
GONG Min	2	–	N/A	N/A
TIAN Jun	2	–	N/A	N/A
YE Qing	2	–	N/A	N/A
Non-executive Directors:				
(i) Management Non-executive Directors:				
QIAN Benyuan	6	N/A	N/A	2
Frank ATTWOOD	7	N/A	3	N/A
WANG Jinjun	5	N/A	N/A	1
Dennis CHIU	4	N/A	3	2
Louisa HO	7	N/A	3	N/A
Ian TAYLOR	4	N/A	2	2
MAO Tong	1	N/A	N/A	N/A
LIN Xizhong	–	N/A	N/A	N/A
(ii) Investment partner Non-executive Directors:				
ZHI Yulin	–	N/A	N/A	N/A

N/A = not applicable (where a Director is not a member of the Committee, although he or she may attend meetings at the invitation of the Chairman of that Committee).

The maximum number of Board and/or Committee meetings that could be attended by some Directors varies as they joined and departed at different times during the year.

John PEXTON, GONG Min, TIAN Jun and YE Qing resigned from the Board on 15 June 2010.

MAO Tong and LIN Xizhong were appointed as Directors on 30 November 2010.

The Board has delegated day-to-day operational development, the strategic activities of the Group and business management control to the **Executive Committee**, which comprises the Executive Directors and the senior managers of the Group. The Executive Committee is responsible for implementing Group policy, the monitoring and performance of the business and reporting to the Board members thereon.

The **Remuneration Committee** is chaired by WANG Jinjun and additionally comprises Dennis CHIU, QIAN Benyuan and Ian TAYLOR. The names and qualification of each of the members are set out on pages 26 to 27. It determines on behalf of the Board the remuneration and benefits of the Executive Directors of the Company and Senior Executives of the Group. It also ensures that the annual review of the levels of awards remain appropriate in light of the Group's current performance and prospects and aligned with the strategy and objectives of the Group. The Board as a whole determines the level of fees of the Non-executive Directors and meets as required. The Remuneration Committee is responsible for making recommendations to the Board, within agreed terms of reference on the Company's framework of executive remuneration.

The Remuneration Committee adopted terms of reference as required by Code provision B.2.1.

The **Audit Committee** is chaired by Frank ATTWOOD, a chartered accountant, also the Senior Independent Non-executive Director, and additionally comprises Dennis CHIU, Ian TAYLOR and Louisa HO. Each member for the committee brings relevant financial experience at a senior executive level and expertise. The names and qualification of each of the members are set out on pages 26 to 27. The Audit Committee meets at least twice a year and its agenda is linked to events in the Company's financial calendar. Additional meetings are called whenever it is considered appropriate. The Committee invites relevant Executive Directors and management to attend the meetings as considered appropriate for the matters being discussed. The Board is satisfied that the Committee has the resources and expertise to fulfil effectively its responsibilities, including those relating to risks and controls. Further training can be provided to the members of the Committee as and when required.

Mr ATTWOOD is considered by the Board to have the significant, recent and relevant financial experience required for the provisions of the Code and the DTR7.1R of the Listing Rules.

The members of the Audit Committee are expected to have an understanding of the principles of and developments in applicable accounting standards as well as key aspects of the Group's policies. They must use judgement in the presentation of accounts and audit adjustments and the level of errors identified.

In discharging its responsibilities the most significant issues addressed by the Audit Committee in respect of the financial year included:

- reviewing the half year and full year financial results and announcements made to the London Stock Exchange;
- considering any material matters affecting the Company and reviewing significant financial reporting judgments;
- reviewing internal financial control and internal audit activities;
- overseeing the relationship with external auditors;
- considering the external auditors' year end report and the findings of their work and confirmation that all significant matters had been satisfactorily resolved;
- reviewing and updating the Company's complaints and whistle blowing policy, which allows staff to raise concerns in confidence about possible improprieties which would be addressed with appropriate follow-up action;
- meeting with external auditors to review planning of the nature and scope of the audit and update on relevant accounting developments; and
- reviewing the outcomes of the work to be performed by the external auditors, any recommendations arising therefrom and the response of management.

To assess the effectiveness of the external auditors, the Audit Committee reviewed:

– the external auditors' fulfilment of the agreed audit plan and any subsequent variations; and
– the robustness of the auditors in their handling of key accounting and audit judgements.

Representatives of the Company's auditors are given the opportunity to speak to the Committee members without the presence of any executive staff. The Audit Committee considers Deloitte LLP, the Company's auditors, to be independent of the Company and they are permitted to undertake certain non-audit services under the approval of the Board and Audit Committee. The Board does not regard these non-audit services to threaten their independence, given that the external auditors' knowledge of the Group's affairs provides significant advantages which other service providers would not have. The provision of non-audit services is assessed on a case-by-case basis to safeguard audit objectivity.

The total fees paid to Deloitte LLP in the year ended 31 December 2010 were £541,000 (2009: £249,000) which includes significant fees for due diligence services in relation to possible acquisitions. Further disclosure of the non-audit fees paid during the year ended 31 December 2010 can be found in note 4 to the group financial statements.

The Audit Committee has recommended to the Board that Deloitte LLP is reappointed as external auditor. In making the recommendation it has taken into consideration the independence matters noted above and the past service of the auditors, who were first appointed in 2008 and their expertise and resources. The Committee has considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditor.

In considering the year-end planning, the Audit Committee is satisfied that the Board has monitored and responded to changes in external risks. The external auditors conducted an audit planning meeting with the Audit Committee to discuss any audit matters and any concerns from either side. Impairment tests have been performed where necessary and due care and diligence has been applied in valuing financial instruments in accordance with relevant accounting standards, for example, IAS32, 39 and IFRS7. These tests have been reviewed as part of the audit process.

The Audit Committee adopted terms of reference as required by Code provision C.3.2.

Cash flow forecasts for the Group were prepared for the Board's going concern assessment.

Risk management and corporate governance continue to be a priority on the corporate government agenda. The Group has an on-going risk management process for identifying, evaluating and managing the significant risks faced and continues to embed a risk awareness and management culture throughout the Group. Risk Assessment and evaluation take place as an integral part of the Group's annual cycle and this includes identification and consideration by senior management of major business risks.

The Group has sufficient funds to meet all current debt and investment commitments.

The U$180 million term loan facility is subject to close monitoring and compliance with financial covenants and the borrower is obliged to report periodically the covenant compliance to lenders in the loan syndicate.

Internal Controls and Risk Review

In accordance with the principles of the Code, the Board has overall responsibility for the internal control system of the Group with an ongoing process for identifying, evaluating and managing the significant risks. The risk management system in place is regularly reviewed by the Board and accords with the Code guidance. The system is designed to manage rather than eliminate the risks of failing to achieve business objectives and can provide reasonable but not absolute assurance against material misstatement or loss.

A Risk Monitoring Panel was established in late 2010, comprising 3 board members: Frank ATTWOOD, MAO Tong and LIN Xizhong. It will monitor management's reviews covering material risk controls including governance, strategic, operating, regulatory, financial and funding for each of the Group's business segments, which were classified into 8 areas. These did not cover the Group's associate undertakings. Risk assessment scores based on standardised methodology, were used at each of these 8 segments. They provide guidance to the Group's businesses in risk management and control systems. Mitigation plans were required to be in place to manage the risks identified. The assessments provide a mechanism for identifying any controls which may require strengthening and the Risk Monitoring Panel will support in implementing and monitoring action plans to address any control weaknesses. These risk assessments are also to be reviewed as part of the Group's internal audit process.

By these means a review of the effectiveness of the group's system of internal controls is conducted at least annually. During the course of its review of the system of internal control, the Board has not identified or been advised of any failings or weaknesses which it has deemed to be significant. Therefore a confirmation in respect of necessary actions is not required.

The Group has monitored its position in relation to volatility in the financial markets, including its exposure to liquidity risk and counterparty default risk. Cash flow forecasts for the Group are prepared for the ensuing 18 months and key risks assessed, such as the ability to meet bank loan payments and covenants. Reporting arrangements seek to ensure that high-quality, well-controlled and timely management data is available together with regular management reports. With the cash resources of the Group and the undrawn borrowing facilities currently in place, the Committee is satisfied that management has put in place necessary arrangements reasonably to cover unexpected funding needs.

The Group has a proven system of internal financial controls and reporting procedures, which integrate the financial reports of the joint ventures and associate companies. The Board has established a process to examine and update these controls and procedures on an ongoing basis. There was no actual fraud or suspected fraud or alleged fraud found during the year. The Executive Committee meets regularly to review the budgets, financial reports and forward cash flow projections for the Group, including its principal joint ventures and associate companies. The joint venture companies prepare monthly, six monthly and annual accounts. The Executive Committee is responsible for examining the formal system of internal controls and reports and modifying the system where changes in business activities and/or the external environment dictate.

The Group has an internal audit function. Internal audit reports are distributed to both Executive Directors and the Audit Committee to enable them to assess the effectiveness of the system of internal control. In addition, management actively participates in and conducts internal audits of joint ventures and associated companies on a periodic basis. Bluesky maintains its own internal audit function which reports to its Board.

The Executive Committee is responsible for establishing guidelines and procedures for the evaluation and development of new investment proposals open to the Group. The Executive Committee formally reviews the financial projections and the risks inherent in new proposals before submitting significant capital expenditure projects to the Board for its approval.

Most of the Company's activities are conducted through subsidiaries, joint ventures and associated companies which have their own boards of directors, management structures and accounting/reporting procedures. In all the joint ventures, the Company has directors on the boards and its own staff members seconded to key management positions, such that the Company can monitor and has the ability to influence operational decisions.

The Company is intending to design and implement new internal systems, risks assessments and controls similar to those already in place elsewhere in the Group to support the Group's move into natural resources outside China.

Accountability and Audit

For the purposes of Code provision C.1.1, the directors' responsibilities statement, for the preparation of financial statements is on page 61 and the going concern statement is included in the Directors' Report on page 29.

The Independent auditors' report on the group financial statements is on pages 62 to 63.

Relations with Shareholders

In accordance with Code provision D.1.1, the Chairman meets as required with the major shareholders. The Senior Independent Director also attends meetings with some major shareholders to listen to their views. Other Non-executive Directors are also given the opportunity to attend meetings with the major shareholders to discuss their views. The Senior Independent Director is available to shareholders if they have specific concerns that cannot be resolved through normal channels of communication with the Chairman or Chief Executive.

Business presentations are also made for the full year to institutional investors, fund managers and analysts. At least two times a year the Company also holds meetings with institutional investors, pension fund managers, retail fund managers and other shareholders; these are arranged by the Company's corporate broker and investor relations consultant, who then provide independent feedback. The Non-executive Directors are encouraged to attend presentations to analysts and shareholders.

The Board makes constructive use of the AGM to communicate with private shareholders and investors. A business presentation is given at the AGM.

The Company posts the annual report and notice of AGM at least 20 working days before the AGM. At the AGM, separate resolutions are proposed on each significant business issue. The Company provides for shareholders voting by proxy with the option of withholding their vote on a resolution. Voting is by way of a show of hands by members present at the meeting unless a poll is validly called. At the AGM, the Company discloses the number of proxy voting lodged for each resolution including votes "For", "Against" and "Withheld". The details of proxies lodged at general meetings where votes are taken on a show of hands are published on the Company's website.

The Company's website is www.fortune-oil.com from which the Company's financial reports, announcements and other information can be downloaded.

Information required for disclosure by DTR7.2 is as follows:

Directors
The information about the appointment and replacement of directors and the powers of directors required to be included in this section can be found on page 35 of the Directors' Report.

Articles of Association
The information about making amendments to the articles of association required to be included in this statement can be found on page 32 of the Directors' Report.

Information on structure of share capital and other matters
The information about the structure of share capital required to be included in this report can be found on page 32 of the Directors' Report.

remuneration report

The Remuneration Report sets out the policy and disclosures on Executive Directors' and Senior Executives' remuneration and has been prepared in accordance with Schedule 8 to the Accounting Regulations under the Companies Act 2006. The report also meets the relevant requirements for the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the 2008 Combined Code. This report will be subject to an advisory shareholder vote at the forthcoming AGM.

The Act requires the auditors to report to the Company's members on certain parts of this report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

The objectives of the remuneration policy for Executive Directors and Senior Executives are:

- to ensure that the remuneration packages attract, retain and motivate individuals of the highest calibre to further the success of the business;
- to link reward to both individual and business performance, whilst aligning the interests of Directors and Senior Executives with those of shareholders;
- to link the Executives to the long-term success of the Group through incentive share and bonus scheme arrangements linked to appropriate Key Performance Indicators and strategic aims.

In discharging its responsibilities, the Remuneration Committee met its objectives by:

1) reviewing the current Remuneration Structure/Policy and its fitness to achieve the objectives given the change in the economic environment and the greater emphasis on development of resources business by the Group and recommending that the Remuneration Policy for Executive Directors remains unchanged for 2010

2) the annual review of the Executive Directors' remuneration;

3) recommending grants of LTIP shares under the Plan in respect of the period 1 June 2010 to 31 May 2011;

4) monitoring the special bonus scheme arrangements and targets;

5) approving the Remuneration Report for the 2009 Annual Report;

The remuneration policy is designed to reward executives fairly and responsibly for their contribution without the Company paying more than necessary to achieve this objective. Independent reviews have shown that remuneration levels for Fortune Oil management have historically been below average for the oil & gas sector.

The overall structure of the Group's remuneration policy is subject to review as the Group grows into new business areas and in absolute size with the Committee considering that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Group's businesses and environment and remuneration practice.

As part of the consideration of the level of remuneration and other benefits of executive directors the Remuneration Committee takes into account the levels of remuneration and employment conditions of Group employees generally and the graduation of remuneration and other benefits throughout the management structure. This is balanced by the need to recruit and retain senior executives for the increasing complexity and geographical spread of the Group's operations.

SECTION 1: UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee members are WANG Jinjun (Chairman), Dennis CHIU, QIAN Benyuan and Ian TAYLOR, all of whom are Non-executive Directors of the Company.

The Board is satisfied that none of the Remuneration Committee members have any personal financial interest, other than as shareholders, in the matters to be decided and no conflicts of interest arising from cross directorship. Each member has been determined by the Board to be independent in character and judgement and no Director plays a role in deciding his own remuneration.

The Remuneration Committee determines the remuneration policy as applied to the Executive Directors of the Company and Senior Executives of the Group. The Remuneration Committee is also responsible for approving changes to the Company's share option schemes and also for approving share option grants. It consults with the Executive Vice-Chairman and an Executive Director and has access to professional advice from appropriate internal and external sources, as considered necessary. The Company has currently not employed any external remuneration consultants.

The Remuneration Committee's terms of reference are available at www.fortune-oil.com.

Remuneration Policy for Executive Directors and Senior Executives

The policies described in this report have been applied throughout 2010. While these policies are envisaged to be consistently applied in subsequent years, the Remuneration Committee will continue to monitor its policies. The Chairman and Vice-Chairman of the Board maintain contact as required with the Company's principal shareholders regarding the implementation and effectiveness of the remuneration schemes.

In formulating the remuneration policy and determining the remuneration package, due notice has been taken of a number of considerations including appropriate comparators, the Group's positioning and relative size, geographical variations and recruitment and retention difficulties.

The remuneration package consists of short-term rewards (basic salary, annual bonus and benefits) together with long-term benefits (participations in LTIP share based award in the Senior Executive Incentive Plan). In principle, it should strike a balance between fixed and performance related elements of pay. Details of the emoluments to Executive Directors and fees payable to Non-executive Directors are set out on page 58; they are reported in pounds sterling although most emoluments were agreed and paid in HK$ or RMB. The following remuneration components are reviewed to ensure that they are supportive of the Group's business objectives and in the creation of shareholder value:

Each element of an Executive Director's remuneration package aligns and supports the achievement of different objectives as below:

Element	Objective	Performance Period	Performance metrics
Base salary	To reflect the value of the individual and to recognise individual responsibility	Annual	Individual skills, experience and performance
Annual bonus	To drive achievement of individual and Group annual business goals	Annual	Personal performance and contribution to business objectives, linked to corporate profitability.
Special bonus	To provide linkage between short-term and long-term incentives	Discretionary	Continuing personal exceptional performance on a case-by-case
Benefits	Based on local market practice and legislation	Annual	N/A
Long Term Incentive Plan award in Senior Executive Incentive Plan	To align shareholder interests with executives and to incentivise executives to achieve long-term performance and commitment to the Group.	Annual vesting over 3 years and possible increase of the awards between the 3rd and 6th anniversary.	Continued employment and to achieve profitable and sustainable growth for the Group. Profit Attributable to Equity Shareholders Total Shareholder Return

Executive Directors are also eligible to be granted share options under the employee share schemes.

1. **Basic Salary**
The basic salary is determined by taking into account an individual's performance and responsibilities, his/her relevant skills and experience, individual circumstances in relation to the particular post and comparator company information for similar jobs. Salaries are reviewed against the background of both business and individual performance.

2. **Annual Bonus Scheme**
Bonuses are awarded at the discretion of the Remuneration Committee and in recognition of the individual's contribution to the success of the Company and upon the personal achievement of specified objectives. The features are:

i. All Directors, executives and regular employees are eligible to participate in the scheme (Non-executive Directors may not participate in the scheme);
ii. The bonus for achieving on-target performance is a maximum of 25 per cent of basic salary. The maximum bonus is 50 per cent of basic salary for significant over-achievement, except for employees in the Trading Department whose bonus is based on certain percentage of annual trading projects and therefore bears no reference to basic salary. The total amount of all bonuses payable shall not exceed 10% of gross annual profit; and
iii. Two types of performance criteria will be considered in connection with the award of the annual bonus and they are:

- **Personal Performance Criteria**

The personal performance criteria of the Executive Directors and Senior Executives are the same as those defined in the Long Term Incentive Plan, the 2004 Share Schemes and their annual work objectives for the executive and senior employees.

- **Financial Performance Criteria**

The financial performance criteria are based wholly on challenging financial performance targets. For Executives and employees assigned to business units and joint ventures, the financial performance criteria are tied to the annual budget, which is approved by the appropriate board.

For Head Office executives and employees, the financial performance criteria are tied to the profit attributable to equity shareholders ("Attributable Profit"). For this purpose, 15 per cent growth per annum is considered the target.

These criteria are used for both short term rewards and the Long Term Incentive Plan which are targeted at both personal and Company performance and align the interests of Directors with those of shareholders by linking share and cash incentive payments to performance.

Payment of a bonus is carefully considered in each individual case and only made when justified by reference to financial and operational yardsticks. A bonus can be in the form of cash or shares.

3. **Special Bonus**
The Remuneration Committee may make discretionary special bonus awards where exceptional performance results in significant benefits to the Group. Such bonuses are considered on a case-by-case basis and the payment of a material part of any such bonus is dependent upon continuing exceptional performance over a pre determined number of years and/or achievements of key tasks.

The Remuneration Committee approved in 2008 a Special Bonus Scheme for Executive Directors and Senior Executives with responsibility for Fortune Gas wherein their annual bonuses is tied to specific performance achievements up until 2011. The bonus pool potentially available for this period is £0.9 million and was related to the deemed disposal of 15 per cent of Fortune Gas to Wilmar International Limited in 2008. Future bonus payments will be linked to and weighted by specific performance targets compatible with the Company's KPIs and strategic aims. These include achieving a target 40 per cent average annualised growth in the net profit of Fortune Gas for each of the three years to 2011; gas sales and government approvals for development of coal seam gas projects, in particular at Liulin; achieving a 15 per cent annual increase in earnings per share for Fortune Oil and refinancing of the Company's term loan.

4. **Benefits**
   Benefits are considered individually and by reference to relevant criteria to ensure the total remuneration package conforms to the aims of the remuneration policy.

5. **Pension**
   There is no pension provision made for employees of the Group.

6. **Share Option Schemes**
   The Company's Share Option Schemes are as follows:

   Following approval by shareholders at the AGM in June 2004, the Company adopted two new Employee Share Option Schemes, one intended for staff other than Executive Directors and the other for Senior Executives. One scheme is approved by the Inland Revenue and the other is operated as an unapproved scheme.

   The share options under both the 2004 Approved and Unapproved Schemes were granted by the Trustees of the Company's Employee Benefit Trust on the recommendation of the Remuneration Committee of the Board.

   i. **The Fortune Oil PLC 2004 UK Inland Revenue Approved Employee Share Scheme (the "2004 Approved Scheme")**
      Participation under the 2004 Approved Scheme is open to employees who do not have (or have not had in the last 12 months) a material interest in the Company (i.e. more than 25% of the ordinary share capital). The exercise price is specified at the time the options are granted and must not be significantly less than their market value at that time. An option will normally be exercisable following the third anniversary of grant and before the tenth anniversary of its grant, provided the participant remains in employment and subject to satisfaction of the performance conditions set by the Remuneration Committee from time to time. The market value of shares for which a participant may hold unexercised options is limited to £30,000, calculated at the time the option is granted. In principle, an individual cannot be entitled to shares under option to a value of more than six times his earnings. The total number of shares over which options are granted in any ten year period (whether exercised or not), when added to all such options granted under all other share schemes of the Company including the Senior Executive Incentive Plan, shall not exceed 10% of the fully diluted ordinary share capital of the Company in issue at that time.

      There are currently options over 493,421 ordinary shares granted to an employee. The options entitle the participant to exercise between 8 June 2008 and 7 June 2015. The exercise price is 6.08 pence per share and the option price set was the market value defined as the average of the quotations on the three dealing days before grant of the option. The exercise of all options granted under the 2004 Approved Scheme is conditional on the achievement of individual performance criteria determined by the Remuneration Committee.

      The personal performance conditions applying to all options are reviewed at the end of the performance period and are not re-tested. As an all-employee scheme approved by the Inland Revenue (now HM Revenue & Customs), there are no financial performance conditions attaching to the exercise of options.

ii. **The Fortune Oil PLC 2004 Unapproved Employee Share Scheme (the "2004 Unapproved Scheme")**
The principal terms of the 2004 Unapproved Scheme are the same as the 2004 Approved Scheme set out above excepted as noted below:

The statutory limit of £30,000 worth of share options per participant does not apply. However, no participant will receive options worth more than one times their annual salary in any one year and no participant shall receive an option whereby the number of shares received under this scheme when aggregated with the shares under any other scheme including the Senior Executive Incentive Plan exceeds 3.5% of the issued ordinary share capital of the Company, from time to time. The exercise price on grant may be set at a level other than the market value of the shares at the time of grant of the option. In principle, an individual cannot receive options if he would be entitled to shares under option to a value of more than six times of his earnings.

During the year, no option shares were exercised. There are currently:

a) options over 4,856,579 ordinary shares granted to 14 employees (none of whom are Directors). The options entitle the participants to exercise them between 8 June 2008 and 7 June 2015. The exercise price is 6.32 pence per share.

b) options over 1,350,000 ordinary shares granted to 4 employees (none of whom are Directors). The options entitle the participants to exercise them between 25 June 2011 and 24 June 2018. The exercise price is 11.75 pence per share.

Options were granted at the closing price prevailing at the date of grant. The exercise of all options granted under the 2004 Unapproved Scheme is conditional on the achievement of individual performance criteria determined by the Remuneration Committee. The performance criteria set relate to specific job responsibilities. The 2004 Unapproved Scheme is structured to reflect the performance of the employees as well of that of the business area of the Group.

The personal performance conditions applying to all options are reviewed at the end of the performance period and are not re-tested. The Company operates the 2004 Unapproved Scheme for all employees and there are no financial performance conditions attaching to the exercise of options.

All share option scheme rules provide for early exercise in certain circumstances, such as disability, sickness, death or where the employee's employment is ceased and the employee satisfies the requirements for classification as a "good leaver". Our policy also permits awards where the performance conditions have already been met to be retained by the individual. The Remuneration Committee may use its discretion to allow total or a partial exercise on a pro-rata basis for the period of employment. In any other circumstances options would normally lapse.

7. **Long Term Incentive Plan ("LTIP") – The Fortune Oil PLC Senior Executive Incentive Plan (the "Plan") and Long Term Incentive Plan, collectively the 2009 LTIP**

Conditional nil cost share awards are made by JTC Trustees Limited, as trustees of the Company's Employee Benefit Trust, following recommendations made by the Remuneration Committee of the Board. The awards normally vest at the end of the three-year performance period, subject to the achievement of the performance conditions and continued employment.

At the AGM on 24 June 2009, shareholders approved the renewal of the Long Term Incentive Plan, originally adopted in 1999 as a stand-alone share scheme, which was amended to incorporate the Senior Executive Incentive Plan (the "Plan") at the AGM in 2004 to allow for the award of share options, as envisaged by the Plan. The Plan is subject to the rules of the LTIP, which is designed to operate for a maximum of 10 years from December 1999.

The terms of the 2009 LTIP are similar to those approved by shareholders in December 1999, as revised at the AGM in 2004.

The 2009 LTIP has taken into account of current governance guidelines. The maximum number of shares over which awards may be made is revised to be restricted to 5% of the issued share capital of the Company from time to time and that for the measurement of Company performance for the topping up of awards one of the measures is "profit attributable to equity shareholders."

The Plan is operated by the Trustee of the Company's Employee Benefit Trust, subject to the rules of the LTIP approved by the shareholders on 7 December 1999, as amended on 25 June 2004 and 24 June 2009.

The aim of the Plan is to motivate individuals to achieve profitable and sustainable growth for the Company by giving them an opportunity to accumulate a meaningful participation in the share capital of the Company, as a reward for achieving outstanding returns for shareholders. Executive Directors in Fortune Oil PLC and certain Senior Executives of various subsidiaries of the Group are eligible to participate in the Plan, at the discretion of the Remuneration Committee, but the Executive Vice-Chairman does not participate in this scheme. Annual grants are made and for which the performance and vesting periods are three years. Under the Plan, these eligible employees are eligible to receive awards of share options, the vesting of which are contingent on specified performance targets and continued employment with the Group.

The maximum award made to the Executive Directors and Senior Executives was 50% of base salary and the minimum was 25% of base salary. Awards under the Plan were first made in June 2005.

The number of shares, if any, over which the options granted pursuant to the Plan is subject to personal and Company performance criteria being met. If the personal performance criteria are achieved then the share option will give the Director or Executive conditional rights over a certain number of shares. If the Company performance criteria are achieved then the number of shares subject to the option will be increased. Failure to meet the Company performance criteria will not reduce the number of shares over which the Director's or Executive's option subsists by virtue of the personal performance targets having been met. Each option is a nil cost option over ordinary shares in the Company.

Other than in exceptional circumstances, options will only be exercisable after three years from the grant. They will lapse after the tenth anniversary of grant if not exercised before that date. When an option is exercised on or after the third anniversary of the grant and the Company's performance criteria in that three year period have been met then the number of shares under the option will be increased. If the Director or Executive delays exercising the option until four or five years from the date of grant and the Company's performance criteria in the three year period have been met then the number of shares under the option will be further increased.

The personal performance criteria are an objective measure of productivity of the individual and all people working directly for that Director or Executive. They are set at the time the option is granted and will have 2 thresholds reflecting:

(i) good (significantly above average) performance; and
(ii) exceptional performance

The Remuneration Committee determines whether the performance levels have been met, based on personal objectives for the year and in line with the Company's Key Performance Indicators and strategic aims.

The Company performance criteria are an objective measure of economic performance of the Company. The performance criteria are set at the time the option is granted and will have 2 thresholds reflecting:

(i) good (significantly above average) performance; and
(ii) exceptional performance

The Company's performance criteria chosen by the Remuneration Committee for options granted are weighted 60% in respect of increased profit attributable to equity shareholders ("Attributable Profit") and 40% in respect of total shareholder return ("TSR"). TSR is measured as being the increase in share value plus all dividends paid. In relation to TSR, the performance of the Company is considered to be "good" where TSR increases by 15 per cent or more per annum on average and "exceptional" performance is where TSR increases by 20 per cent or more per annum on average. In relation to Attributable Profit, the performance of the Company is considered to be "good" where Attributable Profit increases by 15 per cent or more on average per annum and "exceptional" performance is where Attributable Profit increases by 20 per cent or more on average per annum.

The Remuneration Committee is not aware of any listed companies of similar size and composition whose main business activities are comparable in nature to that of Fortune Oil PLC. As a result, there were no comparator group of companies or sectors whose performance were considered appropriate to be used to benchmark the performance of management. These performance criteria were chosen by the Remuneration Committee after consultation with the Company's financial and legal advisers. The Remuneration Committee is satisfied that these criteria represent a challenging and transparent financial measure which can be calculated from published accounting information.

The increase in the number of shares covered by the options as a result of good or exceptional Company performance is calculated as follows:

Date of Exercise	Increase in number of shares for Good Company Performance	Increase in number of shares for Exceptional Company Performance
On or after 3rd anniversary but before 4th anniversary	20%	40%
On or after 4th anniversary but before 5th anniversary	40%	100%
On or after 5th anniversary	100%	200%

The Plan is operated in conjunction with an Employee Benefit Trust. The LTIP rules provide that the maximum number of shares subject to options granted under the Plan shall not exceed 5% of the issued ordinary share capital of Fortune Oil PLC, from time to time. The LTIP rules also prevent individuals from receiving shares if their cumulative entitlement would exceed 3.5% of the issued ordinary shares of Fortune Oil PLC, from time to time.

The total number of shares held in the Employee Benefit Trust for issue is 4.52 per cent of the issued ordinary share capital of the Company.

The LTIP Rules provide that in the event of a change of control of the Company as a result of a takeover and amalgamation of the Company, then any award may vest in full or in part, and any option shall become exercisable in full or in part, both subject to the Trustee's discretion at any time and any condition subject to which the offer is made has been satisfied. The Trustee shall be able to sell all or part of the shares subject to any award or option.

Policy on external appointments

Generally Executive Directors may accept external appointments with the prior approval of the Board as non-executive directors of other companies and retain any related fees paid to them. These appointments must not be with a competing company and their duties must not materially dilute or adversely affect the Executive Director's contribution under the terms of his/her appointment with the Group. Directors may usually retain payments arising from such appointments. Daniel CHIU, the Executive Director, retained fee for external non-executive directorship for the company listed in Hong Kong. The Board is satisfied that the external appointment does not interfere with the performance of Mr CHIU's duties for the Company.

Service Contracts and Termination Policy

The Group has a service contract with Mr TEE Kiam Poon. The Company retains the right to terminate his employment by making payment in lieu of notice.

Nature of contract	Notice period by Company/Director	Compensation provision for early termination
Rolling	3 months	None

No other Executive Directors have a service contract with the Company or its subsidiaries; instead they have letters of engagement or appointment and are subject to retirement by rotation every three years in accordance with the Company's Articles of Association.

The Company applies in general the principle of mitigation in the event of early termination on its own particular merit. The Committee expects Directors and Senior Executives to mitigate any losses arising on termination but will tailor its approach to individual cases. In any event under relevant law and regulations applicable to these Senior Executives the notice to be given is less than 12 months and any payment in lieu of notice would be equal to or less than the basic salary for the notice period.

Non-executive Directors

Non-executive Directors are appointed by letters of appointment and do not have contracts of service or contracts for service. They are appointed for a two year term and may be appointed for further fixed period subject to the articles of association of the Company, after which an appointment may be terminated on one month's notice by either the Director concerned or the Company with no predetermined compensation amount on termination.

Non-executive Directors had been appointed for a fixed term not exceeding three years and, following the implementation of the Companies Act 2006, those appointments are normally renewable, with the consent of both parties, for terms not exceeding two years.

Non-executive Directors	Date of first appointment to the Board	Start of current term of office	Expiry Date	Notice period by Company/Director
Dennis CHIU*	9 Aug 1993	28 Oct 2009	27 Oct 2011	1 month
Ian TAYLOR*[1]	9 Aug 1993	28 Oct 2009	27 Oct 2011	1 month
QIAN Benyuan*	28 May 1997	28 Oct 2009	27 Oct 2011	1 month
ZHI Yulin*	30 Nov 2000	28 Oct 2009	27 Oct 2011	1 month
Louisa HO[2]	15 June 2001	1 Sep 2009	31 Aug 2011	1 month
WANG Jinjun	26 Nov 2003	21 Nov 2009	20 Nov 2011	1 month
Frank ATTWOOD	24 June 2009	24 June 2009	23 June 2011	1 month
MAO Tong	30 Nov 2010	30 Nov 2010	29 Nov 2012	1 month
LIN Xizhong	30 Nov 2010	30 Nov 2010	29 Nov 2012	1 month

* Subject to annual re-election according to the requirement of the Combined Code.

[1] Ian TAYLOR became a Non-executive Director on 24 June 1996. He was an Executive Director between 9 August 1993 and 23 June 1996.

[2] Louisa HO became a Non-executive Director on 1 September 2006. She was an Executive Director between 15 June 2001 and 31 August 2006.

Policy on Remuneration of Non-Executive Directors and the Chairman

The policy on remuneration of Non-executive Directors is determined by the Board by reference to practice in companies similar in size to the Company. The fees payable to Non-executive Directors are ratified by the Board after discussion between the Executive Directors. The level of fees is reviewed against market practice and takes into account market rates and the required time commitment. Non-executive Directors receive fixed fees plus reimbursement of expenses for attending Board and other meetings. They are not eligible for performance-related bonuses or awards under the Company's Plan or any of the Company's share option schemes.

The setting of the Chairman's remuneration is the responsibility of the Executive Directors and not the Remuneration Committee in accordance with the Code B.2.2. The fees paid to the Chairman include his time for performing his additional role on the Remuneration Committee.

Pursuant to the Company's articles of association, the fees payable to Non-executive Directors are limited to £400,000 per annum in the aggregate. This level was established following approval by the shareholders at the AGM held in 2007. The total fees paid to Non-executive Directors were £150,000 in 2010 (2009: £141,000)

Apart from QIAN Benyuan, Frank ATTWOOD, WANG Jinjun, Louisa HO, MAO Tong and LIN Xizhong, the other three Non-executive Directors received no emoluments as employees or Directors in the financial year ended 31 December 2010.

Directors' Interests in Shares

As at the end of 2009 and 2010 the Directors' interests in the share capital of the Company, all of which are beneficial, were as follows:

	Ordinary Shares of 1p each						
	Ordinary Shares held at 31/12/2009	2006 award of LTIP shares vested and transferred out of the Company's Employee Benefit Trust in 2010[10]	Ordinary Shares acquired during 2010	Ordinary Shares vesting under the Plan during 2010[1]	Ordinary Shares held at 31/12/2010	Conditional right to receive Ordinary Shares held in the Company's Employee Benefit Trust[1] 31/12/2009	Conditional right to receive Ordinary Shares held in the Company's Employee Benefit Trust[1] 31/12/2010
Executive Directors							
Daniel CHIU[2]	723,201,284	–	2,434,328	–	**725,635,612**	–	**–**
TEE Kiam Poon	–	–	–	–	**–**	–	**1,199,580**
LI Ching[3]	19,632,058	642,856	120,000	311,925	**20,394,914**	311,925	**1,185,600**
John PEXTON[4]	1,041,273	535,703	–	608,006	**N/A**	271,668	**Nil**
GONG Min[5]	229,882	334,812	–	169,804	**564,694**	169,804	**373,692**
TIAN Jun[6]	1,851,516	535,703	–	173,370	**2,387,219**	173,370	**–**
YE Qing[7]	229,882	334,812	–	169,804	**564,694**	169,804	**373,692**
Non-executive Directors							
Dennis CHIU[2]	723,201,284	–	2,434,328	–	**725,635,612**	–	**–**
Louisa HO[8]	2,860,550	–	–	–	**2,860,550**	–	**–**
Frank ATTWOOD[9]	278,437	–	136,552	–	**414,989**	–	**–**

1 These ordinary shares vested upon the completion of three years of employment following the initial award on 21 June 2007. Details of movements in interests in conditional rights to receive Ordinary Shares held in the Company's EBT pursuant to the Plan are given on page 59.

2 This figure represents a combined interest in ordinary shares held in the names of First Level Holdings Limited ("First Level") (647,244,897 ordinary shares) and Goldman Sachs Securities (Nominees) Limited ILSEG ACCT ("Goldman Sachs") (78,390,715 ordinary shares). First Level is a company in which the majority of shares are owned by Daniel CHIU, with the remaining shares being held by Dennis CHIU. The above interest of 725,635,612 ordinary shares relate to the same block of shares. First Level acquired a total of 2,434,328 shares through Goldman Sachs in 2010 as follows:

169,500 ordinary shares at an average price of 8.22p per share on 28 April 2010;
1,250,000 ordinary shares at an average price of 7.51p per share on 30 April 2010;
514,828 ordinary shares at 6.75p per share on 11 May 2010; and
500,000 ordinary shares at 6.75 per share on 14 May 2010.

3 LI Ching acquired a total of 120,000 ordinary shares through HSBC Global Custody Nominee (UK) Limited in which she has a beneficial interest as follows:

20,000 ordinary shares at 6.45p per share on 26 May 2010
20,000 ordinary shares at 6.50p per share on 28 May 2010;
50,000 ordinary shares at 6.50p per share on 1 June 2010; and
30,000 ordinary shares at 6.55p per share on 2 June 2010

4 John PEXTON ceased to be a director on 15 June 2010 and an employee on 30 June 2010. On 24 June 2009 he was awarded a notional bonus of £65,586 which became a right to receive 1,009,014 shares in June 2010 which would have normally vested in June 2012. The Remuneration Committee exercising the discretion under the Plan requested the Trustee to cancel 672,676 shares of this award and to vest 336,338 shares absolutely. Subsequent to his departure all shares held in the EBT have been withdrawn.

5, 6 & 7 TIAN Jun, GONG Min and YE Qing resigned as Directors on 15 June 2010 but remained in their management roles and as respective local directors of the Group's China operations. They are regarded as being Persons Discharge Managerial Responsibility under the DTR of the Listing Rules.

[6] TIAN Jun has 1,368,750 ordinary shares held in a nominee account, in which he has a beneficial interest.

[8] Louisa HO has 2,281,250 ordinary shares held in a nominee account, in which she has a beneficial interest.

[9] On 11 May 2010, Frank ATTWOOD acquired 136,552 ordinary shares at 7.25p each. His shares are held in a nominee account, in which he has a beneficial interest.

[10] LI Ching, John PEXTON, GONG Min, TIAN Jun and YE Qing had the vested LTIP shares (performance period 1 June 2006 – 31 May 2009) certificated in their own name in June 2010.

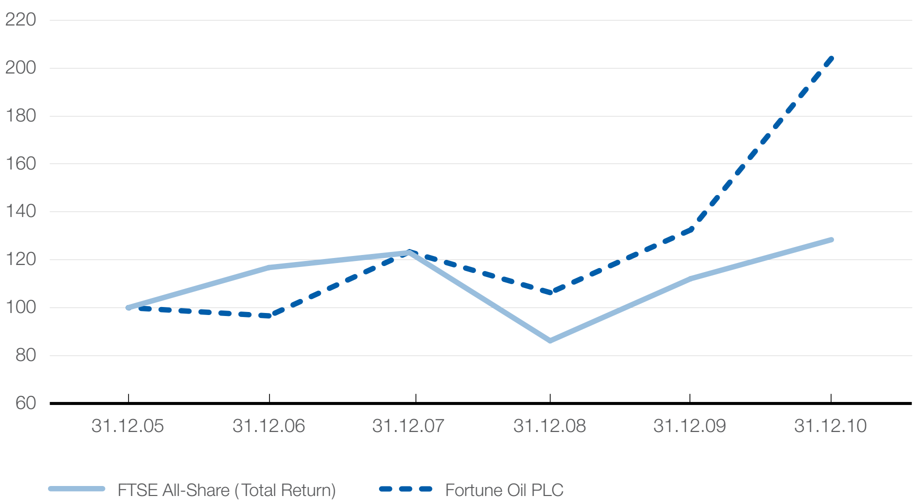
Ian TAYLOR, a Non-executive Director, is the President and Chief Executive of the Vitol Group of Companies. Vitol Energy (Bermuda) Limited is a major shareholder with 147,108,505 ordinary shares (representing 7.40% of the total issued share capital) in Fortune Oil PLC. ZHI Yulin, a Non-executive Director, is the Vice President of China North Industries Corporation (NORINCO) and NORINCO currently owns 33,826,530 ordinary shares (representing 1.7% of the total issued share capital) in the Company).

None of the other Directors held any interests in shares in the Company or the Group at 31 December 2010 or at 31 December 2009.

In the period between 1 January 2011 and the date of this report, no further changes in Directors' interests.

Performance Graph
The graph below illustrates the total shareholder return ("TSR") of Fortune Oil PLC over a five year period in respect of a holding of the Company's shares and the TSR in respect of a hypothetical holding of shares of a similar kind and number by reference to which a broad equity market index is calculated. The Company is a constituent of the FTSE All-Share index and, as such, this is considered to be the most appropriate comparator group.

Performance Graph



Set out below are the closing mid market share price for the Company's ordinary shares as at 31 December in each of years 2006 to 2010.

Fortune Oil Code: FTO Year	Share price (pence)
2006	5.68
2007	7.25
2008	6.25
2009	7.79
2010	12.00

SECTION 2: AUDITED INFORMATION

Directors' Emoluments

Details of emoluments of the Executive Directors and fees payable to Non-executive Directors are set out below:

	Salary/Fees		Bonus in Cash		Benefits[1]		**Total emoluments**	
Amount in £'000	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Executive Directors								
Daniel CHIU	**28**	16	**3**	17	**6**	6	**37**	39
TEE Kiam Poon	**206**	131	**119**	45	**–**	–	**325**	176
LI Ching	**105**	103	**50**	123	**18**	18	**173**	244
John PEXTON[2]	**68**	133	**25**	25	**33**	64	**126**	222
GONG Min[2]	**33**	46	**11**	41	**–**	10	**44**	97
TIAN Jun[2]	**40**	83	**19**	–	**9**	23	**68**	106
YE Qing[2]	**29**	34	**36**	75	**–**	–	**65**	109
Total	**509**	546	**263**	326	**66**	121	**838**	993
Non-executive Directors								
QIAN Benyuan	**64**	61	**–**	–	**–**	–	**64**	61
Frank ATTWOOD	**30**	16	**–**	–	**–**	–	**30**	16
WANG Jinjun	**6**	6	**–**	–	**–**	–	**6**	6
Louisa HO	**50**	44	**–**	–	**–**	–	**50**	44
MAO Tong[3]	**–**	–	**–**	–	**–**	–	**–**	–
LIN Xizhong[3]	**–**	–	**–**	–	**–**	–	**–**	–
Trevor BEDFORD	**–**	14	**–**	–	**–**	–	**–**	14
Total	**150**	141	**–**	–	**–**	–	**150**	141

The emoluments increased due to:

i) Emoluments were included from the dates of appointment during the year and a full year for the following year, where applicable.

ii) exchange rate movement, i.e. the weakening of the GBP by approximately 3%, which is the reporting currency of the Group.

All Directors except Frank ATTWOOD were paid in HK$ and RMB. The average exchange rate used for the year was £1: HK$11.99 and £1: RMB 10.39 (2009: £1: HK$12.16 and £1: RMB 10.72).

[1] The principal benefits are the provision of an accommodation allowance, club membership fees, car park allowance and reimbursed driver expenses.

[2] YE Qing was the Trading Director and his bonus was based on a certain percentage of trading profits. John PEXTON, TIAN Jun, GONG Min and YE Qing resigned as Directors on 15 June 2010.

[3] MAO Tong and LIN Xizhong were appointed on 30 November 2010. Their fees are paid in arrears.

No other Directors received any remuneration. None of the Directors received any pension contributions. No payments were made during 2010 or 2009 in connection with retirement benefits, compensation for loss of office to past Directors and to third parties in respect of Director's services.

Details of the Special Bonus Scheme are given on page 50 in this Remuneration Report.

There have been no changes in the Directors' interest in share options between 1 January 2011 and the date of this Report.

Directors' Interests in Shares under the LTIP awards in the Plan

	No. of shares awarded	Award during 2010[1]	Market share price at close of business prior to the date of award	Vested during 2010	Market share Price prior to the date of vesting	Balance at 31 December 2010[2]	Earliest date on which an award can become unconditional
TEE Kiam Poon							
13.10.2010		1,199,580	8.10p			1,199,580	13.10.2012
LI Ching							
26.06.2008	311,925		11.75p	311,925	6.50p	311,925	
2009	Nil					Nil	
24.06.2010		1,185,600	6.50p			1,185,600	24.06.2012
John PEXTON[3]							
26.06.2008	1,009,014		11.75p	271,668	6.50p	Nil	
2009	Nil					Nil	
24.06.2010		336,338	6.50p	336,338	6.50p	Nil	
GONG Min							
26.06.2008	169,804		11.75p	169,804	6.50p	169,804	26.06.2010
2009	Nil					Nil	
24.06.2010		373,692	6.50p			373,692	24.06.2012
TIAN Jun							
26.06.2008	173,370		11.75p	173,370	6.50p	173,370	26.06.2010
2009	Nil					Nil	
24.06.2010		Nil	–			Nil	
YE Qing							
26.06.2008	169,804		11.75p	169,804	6.50p	169,804	26.06.2010
2009	Nil					Nil	
24.06.2010		373,692	6.50p			373,692	24.06.2012

[1] On 24 June 2009 and 26 October 2009 the Company announced the LTIP awards under the Plan to certain Directors and Senior Executives conditional on performance targets for the Company and for the executives being met for the year up to 31 May 2010. The announcements confirming number of shares in 2010 were made on 18 June 2010 and 22 October 2010 respectively.

[2] The above awards based on the awards made in 2007 and 2009 following the first anniversary of the grants of the options and were all at the price which was the market price at close of business prior to the dates of award. As a result of the economic uncertainty in 2008/9 and to reduce the costs to the Group, the participants in this scheme waived their rights and to receive no grants of shares in respect of this period and therefore the grant of LTIP award of shares in 2009 for the performance year 2008 was nil.

[3] John PEXTON ceased to be a director on 15 June 2010 and an employee on 30 June 2010 and other than the 336,338 LTIP shares which were vested at that time all rights under the Plan ceased.

Details of directors' interest in shares are set out on page 56 in this Remuneration Report.

Usually, the right to receive the shares that have not yet vested is conditional upon the individual remaining an employee of the Group for a period of at least two further years from the dates of award. The value of shares may increase depending on whether the Company performance criteria are met and the date on which the individual exercises the option. Performance conditions attaching to awards made under the Plan are detailed earlier in the Remuneration Report. During 2010, the Remuneration Committee exercised a discretion to recommend to the Trustees in respect of John PEXTON that 336,338 LTIP shares, one third of the share award, be released to him upon his leaving the Company.

During 2010, 1,602,713 shares vested unconditionally, of which 608,006 shares were transferred out of the Company's Employee Benefit Trust.

On 18 June 2010, Director/five PDMRs had the right to chose whether to exercise their options over share awards under the LTIP granted to them in June 2007. These awards were over 1,096,571 shares (for the personal performance period 1 June 2007 – 31 May 2010). One director chose to exercise his option to withdraw 271,668 shares to which he was beneficially entitled. All the other nil cost options still remain exercisable and under the Plan the number of awardable shares could increase for participants still employed by the Group, depending on the performance of the Company for the three-year period from the date of the initial award in June 2007. The market share price at close of business prior to the date of award in 2007 was 6.40p per share and prior to the date of vesting in 2010 was 6.99p per share.

Directors/PDMRS	No. of shares	Exercise period
LI Ching	311,925	26 June 2010 – 25 June 2017
TIAN Jun	173,370	26 June 2010 – 25 June 2017
GONG Min	169,804	26 June 2010 – 25 June 2017
YE Qing	169,804	26 June 2010 – 25 June 2017

In respect of the 2007 awards the performance period was from 26 June 2007 to 25 June 2010, based upon the parameters for determining the quantum of any additional awards the Remuneration Committee of the Board advised the Trustee of the EBT that the performance for this period was "Good" and that they authorise the increase in the number of ordinary shares the subject of relevant options. There is no consideration for this additional award. The number of shares to be awarded will depend upon the decision taken by each beneficiary as to when they remove their shares from the EBT.

During 2010, the Company also announced awards under the Plan to Executive Directors and Senior Executives conditional on performance targets for the Company and the executives being met for the performance year 1 June 2010 – 31 May 2011. The number of Fortune Shares over which the options will be granted is the number of Fortune Shares which the notional bonus can buy on the first anniversary of the date of grant of the option.

It is currently intended that any ordinary shares required to fulfil entitlements under the Plan will be provided by the Employee Benefit Trust. As beneficiaries under the Trust, those Directors on page 59 are deemed to be interested in certain of the shares held by the Employee Benefit Trust, which at 31 December 2010, amounted to 1,497,525 ordinary shares.

The market value of the 89,810,919 shares held in the Trust at 31 December 2010 was £10,777,310 (31 December 2009: 92,902,811 shares, £7,237,129). It is intended that these shares are continued to be used to provide bonus shares and any share options exercised under any of the 2004 Approved Scheme, the 2004 Unapproved Scheme and the 2009 LTIP.

As detailed on page 59 conditional rights to shares under the Plan received by to the Directors have been recognised. As detailed in note 24 to the group financial statements, an expense has also been recognised in relation to share-based payments.

On 31 December 2010, a total of 89,810,919 ordinary shares are held by JTC Trustees Limited. Of these shares 3,984,594 shares have been allocated to options granted under the Plan and 6,700,000 have been allocated to satisfy options granted under the Company's share schemes.

The number of unallocated shares held within the EBT was 78,131,618 (3.93%), (2009: 82,452,550, 4.15%) and this represented less than 5% best practice limit as endorsed by the ABI.

Share Price

The closing price of the Company's ordinary shares at 31 December 2010 was 12.00p (2009: 7.79p). The highest and lowest closing prices for the shares during the year were 12.50p and 6.03p, respectively.

A resolution will be proposed at the Annual General Meeting on Tuesday, 14 June 2011 to approve the Directors' Remuneration Report. It is an advisory vote and the Board recommends that shareholders vote in favour of the approval of this Report.

The Remuneration Report was approved by the Board and signed on 27 April 2011 its behalf by

WANG Jinjun
Chairman, Remuneration Committee

directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view 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 that they face.

By order of the Board

TEE Kiam Poon
Chief Executive
27 April 2011

LI Ching
Executive Director
27 April 2011

independent auditor's report to the members of Fortune Oil PLC

We have audited the group financial statements of Fortune Oil PLC for the year ended 31 December 2010 which comprise the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Director's Report in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter
We have reported separately on the parent company financial statements of Fortune Oil PLC for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Matthew Donaldson ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
27 April 2011

consolidated income statement

for the year ended 31 December 2010

Amount in £'000	Notes	**2010**	2009
Revenue including share of jointly controlled entities	2	**566,886**	403,745
Share of revenue of jointly controlled entities	2	**(291,132)**	(211,714)
Group revenue	2	**275,754**	192,031
Cost of sales		**(236,817)**	(157,013)
Gross profit		**38,937**	35,018
Distribution expenses		**(13,007)**	(12,000)
Administrative expenses		**(12,453)**	(9,522)
Share of results of jointly controlled entities	14	**11,171**	5,807
Profit from operations		**24,648**	19,303
Other gains	31	**3,404**	865
Finance costs	5	**(2,954)**	(2,532)
Investment revenue	6	**970**	421
Profit before tax		**26,068**	18,057
Income tax charge	7	**(6,526)**	(2,784)
Profit for the year	4	**19,542**	15,273
Attributable to			
Owners of the parent		**13,083**	8,842
Non-controlling interests		**6,459**	6,431
		19,542	15,273
Earnings per share			
Basic	9	**0.69**	0.47
Diluted	9	**0.69**	0.47

All results shown are from continuing operations.

consolidated statement of comprehensive income

for the year ended 31 December 2010

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

consolidated statement of financial position

at 31 December 2010

Amount in £'000	Notes	**2010**	2009
Assets			
Non-current assets			
Property, plant and equipment	10	**65,194**	94,126
Goodwill	11	**4,068**	6,224
Other intangible assets	12	**14,473**	6,130
Prepaid lease payments	13	**1,616**	4,744
Investments in jointly controlled entities	14	**47,717**	31,326
Available-for-sale investments	15	**–**	849
		133,068	143,399
Current assets			
Inventories	16	**4,280**	5,260
Trade and other receivables	17	**45,132**	14,817
Cash and cash equivalents	18	**100,349**	55,766
Assets classified as held for sale	20	**10,625**	–
		160,386	75,843
Total assets		**293,454**	219,242
Liabilities			
Current liabilities			
Borrowings	21	**15,276**	30,192
Trade and other payables	19	**47,033**	32,458
Current tax liabilities		**3,196**	1,026
		65,505	63,676
Liabilities directly associated with assets classified as held for sale	20	**2,874**	–
		68,379	63,676
Non-current liabilities			
Borrowings	21	**56,185**	18,346
Deferred tax liabilities	22	**2,006**	3,024
Financial liabilities – cash flow hedges	33	**564**	–
		58,755	21,370
Total liabilities		**127,134**	85,046
Net assets		**166,320**	134,196
Equity			
Capital and reserves			
Ordinary shares	23	**19,875**	19,875
Treasury shares	25	**(898)**	(929)
Share premium	25	**10,129**	10,129
Other reserves	32	**3,422**	–
Hedging reserves	33	**(564)**	–
Foreign currency translation reserve	25	**23,653**	13,854
Retained earnings		**60,316**	47,157
Equity attributable to owners of the parent		**115,933**	90,086
Non-controlling interests		**50,387**	44,110
Total equity		**166,320**	134,196

The financial statements of Fortune Oil PLC, registered number 2173279, were authorised for issue and approved by the Board on 27 April 2011 and signed on its behalf by:

Li Ching
Director

Tee Kiam Poon
Director

The notes on pages 69 to 106 form part of these financial statements.

consolidated cash flow statement

for the year ended 31 December 2010

Amount in £'000	Notes	2010	2009
Net cash from operating activities	34	**20,372**	25,684
Interest received	6	**970**	421
Dividend received from jointly controlled entities	14	**2,413**	2,584
Payment for property, plant and equipment	10	**(15,381)**	(19,782)
Payment for other intangible assets	12	**(195)**	(4)
Payment for prepaid lease payments		**(36)**	(180)
Receipt from disposal of subsidiary undertakings	31	**12,952**	–
Payment for acquisition of subsidiary undertakings		**(2,703)**	–
Consideration paid on acquisition of additional interests in a subsidiary		**–**	(2,487)
Consideration for disposal of interest in a subsidiary	32	**6,252**	1,265
Receipt from disposal of property, plant and equipment		**3,052**	469
Receipt from disposal of investment properties		**–**	2,185
Receipt from disposal of prepaid lease payment		**13**	–
Investments in jointly controlled entities	14	**(507)**	(2,568)
Loan to jointly controlled entities	14	**(4,857)**	(706)
Net cash from/(used in) investing activities		**1,973**	(18,803)
Proceeds from issue of share capital		**–**	546
Repayment of loans (to)/from non-controlling shareholders		**(1,838)**	18
Dividend paid to non-controlling shareholders		**(3,852)**	(3,406)
Net capital contribution to non-controlling shareholders		**–**	(2,063)
New bank loans raised		**46,117**	4,555
Repayment of borrowings		**(23,106)**	(12,451)
Net cash from/(used in) financing activities		**17,321**	(12,801)
Net increase/(decrease) in cash and cash equivalents		**39,666**	(5,920)
Cash and cash equivalents at beginning of the year		**55,766**	67,823
Cash flow effect of foreign exchange rate changes		**4,917**	(6,137)
Cash and cash equivalents at end of the year		**100,349**	55,766

consolidated statement of changes in equity

for the year ended 31 December 2010

Amount in £'000	Issued capital Ordinary shares	Issued capital Treasury shares	Share premium	Other reserve	Hedging reserve	Foreign currency translation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total
Balance at 1 January 2009	19,282	(594)	8,932	–	–	21,428	37,618	86,666	49,944	136,610
Profit for the year	–	–	–	–	–	–	8,842	8,842	6,431	15,273
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(7,574)	–	(7,574)	(4,593)	(12,167)
Total comprehensive income for the year	–	–	–	–	–	(7,574)	8,842	1,268	1,838	3,106
Payment of dividends	–	–	–	–	–	–	–	–	(3,406)	(3,406)
Issue of share capital	593	–	1,057	–	–	–	–	1,650	–	1,650
Exercise of share options	–	–	140	–	–	–	197	337	–	337
Movement in treasury shares	–	(335)	–	–	–	–	–	(335)	–	(335)
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	–	(2,603)	(2,603)
Deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	(865)	(865)
Consideration for disposal of 3.7% interest in a subsidiary	–	–	–	–	–	–	–	–	1,265	1,265
Net capital contribution by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(2,063)	(2,063)
Share-based payments	–	–	–	–	–	–	500	500	–	500
Balance at 31 December 2009	19,875	(929)	10,129	–	–	13,854	47,157	90,086	44,110	134,196
Profit for the year	–	–	–	–	–	–	13,083	13,083	6,459	19,542
Exchange differences arising on translation of foreign operations	–	–	–	–	–	10,849	–	10,849	4,042	14,891
Loss on cash flow hedges arising during the year	–	–	–	–	(564)	–	–	(564)	–	(564)
Total comprehensive income for the year	–	–	–	–	(564)	10,849	13,083	23,368	10,501	33,869
Payment of dividends	–	–	–	–	–	–	–	–	(3,852)	(3,852)
Exercise of share options	–	–	–	–	–	–	5	5	–	5
Movement in treasury shares	–	31	–	–	–	–	(29)	2	–	2
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	4,857	4,857
Deemed gain on disposal of 41.3% interest in a subsidiary	–	–	–	3,422	–	–	–	3,422	(3,422)	–
Non-controlling interest on consideration for disposal of 41.3% interest in a subsidiary	–	–	–	–	–	–	–	–	11,831	11,831
Disposal of subsidiaries	–	–	–	–	–	(1,050)	–	(1,050)	(13,638)	(14,688)
Share-based payments	–	–	–	–	–	–	100	100	–	100
Balance at 31 December 2010	**19,875**	**(898)**	**10,129**	**3,422**	**(564)**	**23,653**	**60,316**	**115,933**	**50,387**	**166,320**

General information

Fortune Oil PLC is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on the back cover page. The nature of the group's operations and its principal activities are set out in the Directors' Report on page 28 to 37 and in the Business Review on pages 8 to 21.

1. Accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and related interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and those parts of the Companies Act applicable to companies reporting under IFRSs. The financial statements have also been prepared in accordance with IFRSs adopted for use within the European Union and therefore comply with Article 4 of the EU IAS Regulations.

In the current year, the Group has applied, for the first time, the following new IFRS, which are effective for the Group's financial year beginning 1 January 2010

IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combination
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 28 (Revised)	Investments in Associates
IFRIC 17	Distributions of Non-cash Assets to Owners
Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as disclosed in note 32, the adoption of these new or revised IFRS had no material effect on the Group's results and financial position for the current or prior periods but may impact the accounting for Fortune transactions and arrangements.

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 9	Financial Instruments
IAS 24 (Amendment)	Related Party Disclosures
IAS 32 (Amendment)	Classification of Right Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (Amendment)	Prepayment of a Minimum Funding Requirement
Improvements to IFRSs (2010)	

The Group did not early adopt any of these new or revised standards, amendments to standards and interpretations to existing standards. The Group is in the process of assessing the impact of these new or revised standards, amendments to standards and interpretations to existing standards on the Group's results and financial position in the future.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties, available-for-sale investments and share-based payments and share options written as part of the restructure of interests in Liulin. The principal accounting policies adopted are set out below.

1. Accounting policies *continued*

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings and include the results of jointly controlled entities. The results and net assets of undertakings acquired or disposed of during a financial year are included in the Group income statement and statement of financial position from the effective date of acquisition or to the effective date of disposal. Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initially recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Subsidiary undertakings have been consolidated using the acquisition method of accounting and jointly controlled entities are included in accordance with the accounting policies noted below.

Where the Groups increases it's ownership interest in a subsidiary undertaking, goodwill may arise and is calculated as the difference between the consideration paid for the additional interest and the carrying amount of the net assets of the subsidiary. A gain or loss may arise where the Group decreases its interest in a subsidiary without the loss of control, calculated as the difference between the consideration received and the carrying amount of the interest disposed, including a proportionate share of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS39 Financial Instruments: Recognition and Measurement or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

Basis of preparation

As detailed in the Directors' Report, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Investments in the PRC

In respect of major infrastructure projects, the Group's investment in an undertaking in the PRC is made with one or more other parties under a "joint venture" arrangement, with the parties involved taking an agreed interest in the issued share capital of the undertaking. The arrangement is intended to provide necessary financial and operational support to the project as well as providing strong local connections and typically an arrangement will include at least one representative from the PRC. The arrangement is supported by a "joint venture agreement" between the parties that specifies the terms of the arrangement, including details regarding the structure and composition of the board of directors and practical working arrangements. The amount of equity interest and the terms of the joint venture agreement will generally determine whether the investment is recorded as a subsidiary or jointly controlled entity, primarily based on the control of the board and the ability to control the strategic financial and operating policies of the undertaking.

1. Accounting policies *continued*

Subsidiary undertakings

The Group's interest in subsidiary undertakings comprises investments in undertakings where the Group either holds in excess of 50 per cent of the issued share capital of the undertaking and owns more than half of the voting power or where the Group has the power to control the strategic, financial and operating policies of the undertaking concerned.

Jointly controlled entities

The Group's interests in jointly controlled entities comprise investments in undertakings where the Group normally owns between 20 per cent and 50 per cent of the voting power of the undertaking and where the Group exercises joint control of the strategic financial and operating policies of the undertaking concerned by agreement. Jointly controlled entities are accounted for using the equity method of accounting.

Associates

The Group's interests in associates comprise investments in undertakings where the Group normally holds between 20 per cent and 50 per cent of the issued capital of the undertaking and where the Group exercises significant influence, but neither joint control nor control, over the strategic financial and operating policies of the undertaking concerned. Associates are accounted for using the equity method of accounting.

Other investments

Investments are recorded at cost less provision for impairment to the extent considered necessary.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Goodwill arising on acquisitions

Goodwill arising on an acquisition represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses. Capitalised goodwill arising on an acquisition is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Goodwill arising on acquisition before the date of transition to IFRS has been retained at the previous UKGAAP amounts subject to being tested for impairment at that date.

1. Accounting policies *continued*

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful lives as follows:

Motor vehicles, fixtures and fittings	3 to 6 years
Single point mooring buoy and related equipment	6 to 18 years (over the term of the contract)
Leasehold property/improvements	over the leasehold period
LPG tanks and facilities	20 years
Storage tanks and jetty	3 to 38 years
Pipelines	20 to 30 years (over the term of the contract)

Assets in the course of construction are not depreciated.

Oil and gas development assets
Oil and gas development assets represent the cost of developing the commercial reserves discovered and bringing them into production, together with evaluation exploration ("E&E") expenditures incurred in finding commercial reserves transferred from intangible E&E assets.

Depreciation is calculated on the net book values of producing assets using the unit of production method from the date of first commercial production. The unit of production method refers to the ratio of production in the reporting year as a proportion of the proved and probable reserves of the relevant field, taking into account future development expenditures necessary to bring those reserves into production.

Producing assets are generally grouped with other assets that are dedicated to serving the same reserves for depreciation purposes, but are depreciated separately from producing assets that serve other reserves.

Other intangible assets

Software, gas distribution rights and technology rights
Software, gas distribution rights and technology rights are stated at cost less accumulated amortisation which is charged to the income statement over the estimated life of the intangible asset. Amounts acquired from third parties are initially recognised at fair value and then amortised.

Impairment of tangible and intangible assets
The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

Prepaid lease payments
Prepaid lease payments represent the purchase cost of land use rights in the People's Republic of China (the "PRC") and are charged to the income statement on a straight-line basis over the terms of the relevant leases.

Leasing

The Group as lessor
Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

The Group as lessee
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

1. Accounting policies *continued*

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses. Cost is determined on the first-in first-out basis and includes all costs incurred in acquiring the inventories and bringing them to their present location and condition.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the board of directors of the Company who are responsible for allocating resources and assessing performance of the operating segments.

Taxation

Tax on the profit or loss for the year comprises both current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognised for all deductible temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries and interests in jointly controlled entities where the timing of the reversal of the temporary difference cannot be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Foreign currencies

The functional and presentation currency of Fortune Oil PLC is pounds sterling. The functional currencies of overseas operations are the Hong Kong dollar and Chinese renminbi. In the accounts of individual Group companies, the Group translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are taken to profit and loss.

Exchange gains or losses on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, are recognised in the translation reserve.

As at the reporting date, the assets and liabilities of overseas operations are retranslated into the presentation currency of Fortune Oil PLC at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rate for the year. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

The Group has elected not to record cumulative translation differences arising prior to the transition date as permitted by IFRS 1. In utilising this exemption, all cumulative translation differences are deemed to be zero as at 1 January 2004 and all subsequent disposals shall exclude any transaction differences arising prior to the date of transition.

1. Accounting policies *continued*

Financial instruments

Trade receivables and payables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Trade payables are not interest-bearing and are stated at their nominal value.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liability and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Derivative financial instruments
The Group has entered into derivative financial instruments by granting options for future investment in Fortune subsidiary undertakings. Further details of derivative financial instruments are disclosed in note 26.

Derivatives are initially recognised at fair value at the date the share subscription agreement was entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting
The Group designates certain hedging instruments, which include derivatives in respect of interest rate risk, as cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item. Note 26(c) sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are detailed in note 33.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the issue of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method except for borrowing costs capitalised for qualifying assets.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

1. Accounting policies *continued*

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Available-for-sale financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted. For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes. Sales of gas are recognised when goods are delivered and title has been passed. In respect of oil trading transactions, where the Group does not act as the principal then only management fees and commission are recognised as revenue.

Revenue from connection fees is recognised in full once the connections work has been completed as the Group remaining obligation is inconsequential.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Share-based payments
The cost of providing share-based payments to employees is charged to the income statement over the vesting period of the related share options or share allocations. The cost is based on the fair value of the options or shares granted and the number of awards expected to vest. The fair value of each option is determined using an appropriate pricing model at the date of granting. Market related performance conditions are reflected in the fair value of the share. Non market related performance conditions are allowed for using a separate assumption about the number of awards expected to vest.

Treasury shares
Company shares held by the Employee Share Ownership Plan (ESOP) Trust are presented within reserves until such time as the interest in shares is transferred unconditionally to the employees. Costs of administering the trust are charged to the income statement as incurred.

Pensions
The Group does not operate any pension schemes that carry obligations similar to defined benefit arrangements. Contributions to social benefits for employees are charged to profit as incurred.

1. Accounting policies *continued*

Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The main estimates and judgements that have the most significant effect on the amounts recognised in the financial statements are as follows:

a) Recognition and measurement of intangible assets under IFRS 3 "Business Combinations"

In order to determine the value of the separately identifiable intangible assets in a business combination, management are required to make estimates of gas distribution right agreements, secured customer contracts, other contracts, customer relationships and goodwill. The Group engages outside independent parties to perform these calculations and determine the fair value and estimated useful lives of these assets. The carrying amount of intangible assets at 31 December 2010 is shown in note 12.

b) Acquisition of business assets

The acquisitions of Liaoning Fortune Gas Company Limited and Beijing Everthriving Energy Technology Company Limited have not been treated as a business combination as defined in IFRS 3 Business Combinations as it was judged by management that it was an acquisition of business assets rather than that of a business as defined in IFRS 3. Further details are provided in note 30.

c) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. The discount rate applied reflects the market assessment of the time value of money and risks specific to the asset. Further details are provided in note 11.

d) Impairment of property, plant and equipment and other intangible assets

The Group reviews the carrying value of property, plant and equipment and other intangible assets each year to ascertain if there are any indications of impairment. This assessment, and any impairment testing, requires the use of certain judgements and estimates regarding the future cash flows expected to arise from the asset and a suitable discount rate. The carrying amount of property, plant and equipment and other intangible assets at 31 December 2010 are shown in notes 10 and 12 respectively.

e) Deferred consideration on acquisition of Everthriving Energy

The purchase agreement for Everthriving Energy specifies that additional consideration of Rmb 50 million (£4.9 million) is payable after certain conditions are met, including receipt of government approval for refitting marine diesel oil-LNG dual fuel technology, execution of not less than 1,500,000 tons of marine diesel oil-LNG dual fuel refitting, and obtaining government approval for six LNG refuelling stations along Yangtze river. The directors consider it probable that all of the conditions will be met by the end of 2012, and therefore a provision for additional consideration of £3.32 million has been recorded from the date of acquisition, using a pre-tax discount rate of 17.63%.

2. Segmental reporting

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

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

Information regarding these segments is presented below.

a) Operating segments

			Oil											
	Natural Gas		Single point mooring facility		Aviation Refuelling		Trading		Products Terminal		Others**		Group	
Amount in £'000	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Revenue including share of jointly controlled entities	**96,677**	73,846	**15,007**	14,142	**273,925**	199,438	**170,479**	107,126	**2,758**	2,473	**8,040**	6,720	**566,886**	403,745
Share of revenue of jointly controlled entities	**(6,409)**	(3,083)	**–**	–	**(273,925)**	(199,438)	**–**	–	**(2,758)**	(2,473)	**(8,040)**	(6,720)	**(291,132)**	(211,714)
Group revenue	**90,268**	70,763	**15,007**	14,142	**–**	–	**170,479**	107,126	**–**	–	**–**	–	**275,754**	192,031
Profit from operations (including share of results of jointly controlled entities)	**10,839**	8,781	**5,554**	5,732	**8,782**	4,167	**1,105**	1,290	**1,224**	1,006	**588**	465	**28,092**	21,441
Office overheads*													**(3,444)**	(2,138)
Operating profit, net of overheads													**24,648**	19,303
Other gains	**3,404**	865	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3,404**	865
Finance costs													**(2,954)**	(2,532)
Investment revenue													**970**	421
Profit before taxation													**26,068**	18,057
Taxation													**(6,526)**	(2,784)
Profit for the year													**19,542**	15,273
Attributable to														
Owners of the parent													**13,083**	8,842
Non-controlling interests													**6,459**	6,431
Capital additions (see note 10)	**14,260**	16,623	**1,107**	3,116	**–**	–	**14**	43	**–**	–	**–**	–	**15,381**	19,782
Depreciation (see note 10)	**4,651**	4,275	**3,445**	2,792	**8**	7	**59**	60	**–**	–	**–**	–	**8,163**	7,134

2. Segmental reporting *continued*

	Natural Gas		Oil: Single point mooring facility		Oil: Aviation Refuelling		Oil: Trading		Oil: Products Terminal		Others**		Group	
Amount in £'000	**31.12.10**	31.12.09	**31.12.10**	31.12.09	**31.12.10**	31.12.09	**31.12.10**	31.12.09	**31.12.10**	31.12.09	**31.12.10**	31.12.09	**31.12.10**	31.12.09
Net assets: by class of business														
Assets														
Segment assets	**174,532**	156,311	**19,248**	17,840	**27,907**	16,047	**69,925**	27,940	**1,700**	457	**(133)**	(338)	**293,179**	218,257
Unallocated assets													**275**	985
Consolidated total assets													**293,454**	219,242
Liabilities														
Segment liabilities	**(42,673)**	(48,238)	**(2,089)**	(352)	**(36)**	(43)	**(20,323)**	(9,565)	**–**	–	**–**	–	**(65,121)**	(58,198)
Unallocated liabilities***													**(62,013)**	(26,848)
Consolidated total liabilities													**(127,134)**	(85,046)
													166,320	134,196

* Includes overheads in UK/HK/PRC offices.
** Others include retail and distribution.
*** Includes bank loan, deferred tax and dividend withholding tax.

b) Geographical operations

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

Non-current assets are mainly located in the PRC.

c) Analysis of group revenue

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

3. Staff costs

Amount in £'000	**2010**	2009
Staff costs, including directors:		
Wages and salaries	**4,988**	3,308
Social security costs	**12**	10
Share-based payments	**100**	500
	5,100	3,818

3. Staff costs *continued*

Number	2010	2009
The average monthly number of employees during the year, including directors:		
Management and administration	**337**	295
Engineering and operations	**1,006**	1,013
Oil trading, marketing and project development	**53**	46
	1,396	1,354

Directors' emoluments

Details of Directors' emoluments are set out below.

	Highest paid Director		All Directors	
Amount in £'000	**2010**	2009	**2010**	2009
Fees	**–**	–	**150**	141
Salaries and benefits	**325**	244	**838**	993
Total	**325**	244	**988**	1,134

On 23 September 2009, two of the Directors have exercised 8,000,000 share options making a gain of £436,000. No share options were exercised in 2010.

None of the Directors accrue retirement benefits under money purchase or defined benefit schemes.

Further details in respect of Directors' emoluments are set out in the Directors' Remuneration report.

4. Profit for the year

Profit for the year is arrived at after charging/(crediting) the following:

Amount in £'000	2010	2009
Depreciation of tangible fixed assets (see note 10)	**8,163**	7,134
Amortisation of prepaid lease payments and other intangible assets (see note 12 and 13)	**359**	409
Staff costs (see note 3)	**5,100**	3,818
Auditors' remuneration (see below)		
– audit services	**253**	234
– non-audit services	**288**	15
Foreign exchange loss	**73**	131
Loss on disposal of property, plant and equipment	**302**	218
Loss on disposal of prepaid lease payment	**45**	–
Fair value movement of investment properties	**–**	(362)
Operating lease rentals – land and buildings	**135**	134
Cost of inventories recognised as cost of sale	**198,892**	126,417
Other income		
Gain on deemed disposal of interest in subsidiary	**–**	(865)
Gain on disposal of interest in subsidiaries (see note 31)	**(3,404)**	–

4. Profit for the year *continued*

Amount in £'000	**2010**	2009
Analysis of auditors' remuneration:		
Fee payable to the Company's auditor for the audit of the Group financial statements	**253**	234
Other services	**5**	15
Corporate finance services*	**283**	–

* Corporate finance services represent the fee in respect of reporting accountants which were performed in relation to Fortune's proposed class 1 acquisition.

5. Finance costs

Amount in £'000	**2010**	2009
Finance costs:		
on bank loans	**2,744**	1,924
on other loans	**210**	608
Total finance costs	**2,954**	2,532

6. Investment income

Amount in £'000	**2010**	2009
Investment income		
on bank deposits	**556**	191
others	**414**	230
Total investment income	**970**	421

7. Taxation

The taxation charge for the year is analysed below:

Amount in £'000	**2010**	2009
Withholding tax		
Group withholding tax	**1,170**	398
Total withholding tax	**1,170**	398
Current tax		
Group current tax		
UK tax	**–**	–
Foreign tax	**6,132**	2,794
Total current tax	**6,132**	2,794
Deferred tax		
Group deferred tax (see note 22)	**(776)**	(408)
Total deferred tax	**(776)**	(408)
Tax on profit on ordinary activities	**6,526**	2,784

7. Taxation *continued*

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

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

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

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

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

8. Dividends

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

9. Earnings per share

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

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

10. Property, plant and equipment

Group Amount in £'000	Assets in the course of construction	Motor vehicles, fixtures & fittings	Single point mooring buoy	Short leasehold property & improvements	Pipelines	Oil and gas development assets	Total
Cost							
At 1 January 2009	6,885	10,418	31,532	7,755	55,969	6,636	119,195
Exchange differences	(628)	(1,048)	(3,305)	(808)	(5,930)	(254)	(11,973)
Additions (see note 2)	11,133	724	3,115	662	1,133	3,015	19,782
Disposals	–	(113)	(1,368)	(7)	(466)	–	(1,954)
Reclassification	(11,561)	726	–	871	9,964	–	–
At 31 December 2009	5,829	10,707	29,974	8,473	60,670	9,397	125,050
Exchange differences	479	935	2,417	781	5,696	807	11,115
Additions (see note 2)	6,679	776	1,105	157	987	5,677	15,381
Acquisition	234	221	–	–	–	–	455
Disposal of subsidiaries (see note 31)	(1,511)	(4,062)	–	(5,364)	(27,280)	–	(38,217)
Transfer to Assets held for sale (see note 20)	(957)	(324)	–	(210)	(9,537)	–	(11,028)
Disposals	–	(3,800)	(928)	(6)	(250)	–	(4,984)
Reclassification	(3,237)	(268)	–	484	3,021	–	–
At 31 December 2010	**7,516**	**4,185**	**32,568**	**4,315**	**33,307**	**15,881**	**97,772**
Depreciation							
At 1 January 2009	–	3,479	18,834	1,372	5,412	–	29,097
Exchange differences	–	(439)	(1,998)	(232)	(1,379)	–	(4,048)
Charge for the year (see note 2)	–	1,042	2,696	333	3,063	–	7,134
Reclassification	–	(142)	–	(15)	157	–	–
Disposals	–	(88)	(1,103)	(4)	(64)	–	(1,259)
At 31 December 2009	–	3,852	18,429	1,454	7,189	–	30,924
Exchange differences	–	403	1,585	215	1,397	–	3,600
Charge for the year (see note 2)	–	1,096	3,347	366	3,354	–	8,163
Acquisition	–	57	–	–	–	–	57
Disposal of subsidiaries (see note 31)	–	(1,441)	–	(939)	(4,733)	–	(7,113)
Transfer to Assets held for sale (see note 20)	–	(200)	–	(49)	(1,103)	–	(1,352)
Disposals	–	(1,336)	(168)	(2)	(195)	–	(1,701)
Reclassification	–	(95)	–	35	60	–	–
At 31 December 2010	**–**	**2,336**	**23,193**	**1,080**	**5,969**	**–**	**32,578**
Net book value							
At 31 December 2010	**7,516**	**1,849**	**9,375**	**3,235**	**27,338**	**15,881**	**65,194**
At 31 December 2009	5,829	6,855	11,545	7,019	53,481	9,397	94,126

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

11. Goodwill

Amount in £'000	Goodwill
Cost	
At 1 January 2009	7,935
Exchange differences	(623)
Additions	1,656
Transfer to other intangible assets (Distribution Rights) (see note 12)	(2,744)
At 31 December 2009	6,224
Exchange differences	425
Disposals (see note 31)	(2,581)
At 31 December 2010	4,068
Accumulated impairment	
At 1 January 2009, 31 December 2009 and 31 December 2010	–
Carrying amount	
At 31 December 2010	**4,068**
At 31 December 2009	6,224

Goodwill arose upon the acquisition of Beijing Fortune Huiyuan Gas Company Limited in 2003, China United Shanxi CBM Company Limited in 2007, Xinyang Fortune Gas Company Limited and its subsidiaries in 2008 and Fortune Liulin Gas Company Limited in 2009.

In 2009, goodwill of £2,744,000 was reclassified to intangible assets following the finalisation of a valuation report for Xinyang Fortune Gas Company Limited.

For each of the business combinations described above it is the entire business that is expected to benefit from the synergy of the business combination. As such, goodwill has been allocated to the group of cash generating units ("CGUs") that make up the respective business acquired.

In order to test the CGUs and related goodwill for impairment, the recoverable amount of the above CGUs has been determined based on value in use calculations. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next two years and extrapolates cash flows for the joint venture period at expected growth. The rates used to discount the forecast cash flows range from 12.0% to 18.6% (post-tax). The value in use calculations is calculated based on the budgeted gross margin, which is determined using the unit's past performance and management's expectations for the market development.

Based on the above tests, Management believe that no impairment of the CGUs or related goodwill is required.

12. Other intangible assets

Amount in £'000	Software	Club Debentures	Technology Rights	Distribution Rights	Non-compete Agreements	Total
Cost						
At 1 January 2009	19	320	–	3,701	32	4,072
Exchange differences	(2)	(20)	–	(337)	(3)	(362)
Additions	4	–	–	–	–	4
Transfer from Goodwill (see note 11)	–	–	–	2,744	–	2,744
At 31 December 2009	21	300	–	6,108	29	6,458
Exchange differences	2	19	265	506	2	794
Acquired on acquisition of a subsidiary	–	–	6,111	1,541	–	7,652
Additions	8	–	187	–	–	195
Disposal of subsidiaries (see note 31)	–	–	–	–	(31)	(31)
Transfer to assets held for sale (see note 20)	(2)	–	–	–	–	(2)
At 31 December 2010	**29**	**319**	**6,563**	**8,155**	**–**	**15,066**
Amortisation						
At 1 January 2009	6	11	–	51	2	70
Exchange differences	(1)	–	–	(11)	–	(12)
Charge for the year	3	17	–	248	2	270
At 31 December 2009	8	28	–	288	4	328
Exchange differences	1	3	–	29	–	33
Transfer to assets held for sale (see note 20)	(2)	–	–	–	–	(2)
Disposal of subsidiaries (see note 31)	–	–	–	–	(6)	(6)
Charge for the year	6	17	–	215	2	240
At 31 December 2010	**13**	**48**	**–**	**532**	**–**	**593**
Net book value						
At 31 December 2010	**16**	**271**	**6,563**	**7,623**	**–**	**14,473**
At 31 December 2009	13	272	–	5,820	25	6,130

All of the Group's software, club debentures, technology rights, distribution rights and non-complete agreements were acquired from third parties.

The amortisation of software and club debentures is presented in administration expenses in the income statement. The amortisation of all other intangible assets are included in distribution expenses.

12. Other intangible assets *continued*

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Software	5.0 years
Club debentures	10.0 years
Technology rights	40.0 years
Distribution rights	28.0 – 30.0 years
Non-compete agreement	2.5 years

Included in distribution rights is an amount of £6,079,000 (2009: £5,820,000) representing the city gas operation right in Xinyang. The rights entitle the Group to operate city gas for 30 years from the date of acquisition. The net carrying amount will therefore be amortised over the remaining useful life of 28 (2009: 29) years.

£6,111,000 of technology rights acquired in respect of Beijing Everthriving Energy Technology Company Limited and £1,541,000 of distribution rights acquired in respected of Liaoning Fortune Gas Company Limited are not yet available for use and accordingly were not amortised in the year.

13. Prepaid lease payments

Amount in £'000	**2010**	2009
The Group's prepaid lease payments comprise:		
Leasehold land in PRC with medium-term leases	**1,735**	4,880
	1,735	4,880
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables – see note 17)	**119**	136
Non-current assets	**1,616**	4,744
	1,735	4,880

Amortisation of prepaid lease payments amounted to £119,000 (2009: £139,000) during the year.

14. Investments

The following are the Company's principal subsidiary undertakings:

Company	Country of incorporation and operation	Interest in ordinary shares and voting rights Parent	Group	Percentage share of profit	Percentage control of board	Term of initial contract (years)	Nature of business
Maoming King Ming Petroleum Company Limited (Note 1)	China	56.00%	56.00%	40.00%	57.10%	20	Construction and operation of single point mooring facility
Guangzhou Fortune Oil Company Limited	China	100.00%	100.00%	100.00%	100.00%	Perpetual	Trading in petroleum products and investment in retail petrol stations in Beijing
Beijing Fortune Huiyuan Gas Company Limited	China	80.00%	68.00%	80.00%	71.40%	30	Provision of natural gas and operation of gas stations
Luquan Fu Xin Gas Company Limited	China	51.00%	43.40%	51.00%	60.00%	30	Provision of piped natural gas
Qufu Fu Hua Gas Company Limited	China	70.00%	59.50%	70.00%	60.00%	50	Provision of piped natural gas
Shuozhou Fu Hua Natural Gas Limited	China	64.00%	54.40%	64.00%	57.10%	20	Provision of piped natural gas
Shuozhou Jingshuo Natural Gas Limited	China	44.00%	37.40%	44.00%	55.60%	20	Provision of piped natural gas
Fortune Liulin Gas Company Limited (Note 2)	Hong Kong	55.00%	46.80%	55.00%	80.00%	20	Exploration and production of CBM
China United Shanxi CBM Company Limited	China	50.00%	42.50%	50.00%	57.10%	18	Provision of natural gas and CBM
Xinyang Fortune Gas Company Limited	China	100.00%	85.00%	100.00%	100.00%	30	Provision of piped natural gas
Sishui Fortune Gas Company Limited	China	100.00%	85.00%	100.00%	100.00%	30	Provision of piped natural gas
Beijing Everthriving Energy Technology Company Limited (Note 3)	China	65.00%	55.30%	65.00%	60.00%	40	Provision of dual fuel conversion technology and technology consultancy
Liaoning Fortune Gas Company Limited (Note 4)	China	51.00%	43.40%	51.00%	66.70%	28	Provision of spur pipeline and gas distribution

14. Investments *continued*

All companies are held indirectly through subsidiary companies.

A full list of subsidiaries and jointly controlled entities is produced in the Annual Return in the Company Registrars of their respective countries of incorporation.

1. *Maoming King Ming Petroleum Company Limited (MKM) is controlled through an arrangement where the foreign companies as an alliance in the arrangement own 70 per cent of the equity of MKM and are entitled to receive 50 per cent of its retained profits through annual and final distributions. Fortune itself owns 56 per cent of the equity of MKM and is entitled to 40 per cent of retained profits.*
2. *Further to the Subscription and Shareholders Agreement dated 18 December 2009, the Group further disposed of total 41.3% interest in Fortune Liulin Gas Company Limited on (FLG) 25 March 2010 and 15 December 2010 respectively to Dart Energy (previously Arrow Energy International). Following these sales, the Group's interest in FLG is 55% and control is retained by the Group. In accordance with IAS27 (2008) no gain or loss has been recognised in the Income Statement in relation to this transaction.*
3. *In August 2010, the Group acquired a 65% interest in Beijing Everthriving Energy Technology Company Limited (see note 30).*
4. *On 19 May 2010, the Group acquired 51% of the issued share capital of Liaoning Fortune Gas Company Limited, which was an investment vehicle, acquired in order to obtain the right to develop the spur pipeline and gas distribution in Dashiqiao areas (see note 30).*
5. *During the year, the Group disposed two subsidiaries, Henan Fortune Green Energy Development Company Limited and Shuozhou Jingping Natural Gas Limited. Details refer to note 31.*

Jointly controlled entities Amount in £'000	**Interest in jointly controlled entities**	**Net loans to jointly controlled entities**	**Total jointly controlled entities**
Share of net assets/cost			
At 1 January 2010	26,045	5,281	31,326
Exchange rate difference	5,829	222	6,051
Advances	–	4,857	4,857
Disposal of investment (see note 31)	(2,073)	(1,709)	(3,782)
Additional investment	507	–	507
Dividend	(2,413)	–	(2,413)
Share of profit	11,171	–	11,171
At 31 December 2010	**39,066**	**8,651**	**47,717**

14. Investments *continued*

Jointly controlled entities

The following are the Group's principal jointly controlled entities:

Company	Country of incorporation and operation	Principal activity	Percentage share of profit	Percentage control of board	Term of initial contract (years)	Group interest
South China Bluesky Aviation Oil Company Limited	China	Construction and operation of aviation oil storage and supply facilities	24.50%	25.00%	25	24.50%
Zhuhai Special Economic Zone South China Petroleum Company Limited	China	Storage of petroleum products and operation of jetty	37.00%	33.30%	30	37.00%
Jining Qufu New Fu Hong Gas Limited	China	Provision of piped natural gas	42.50%	50.00%	30	42.50%
Tianjin Tianhui Natural Gas Limited	China	Provision of piped natural gas	34.00%	50.00%	20	34.00%
Xinyang Fortune Vehicle Gas Company Limited	China	Provision of CNG	29.80%	40.00%	40	29.80%
Beijing Fuhua Natural Gas Logistics Limited*	China	Provision of transportation	33.30%	40.00%	30	33.30%
Beijing City Badaling Highway Service Station	China	Operation of gasoline stations	55.00%	50.00%	15	55.00%

For the companies above, the control of strategic, financial and operating policies are shared between two or more parties that are involved in the jointly controlled entities.

There is no Board of Directors in Beijing City Badaling Highway Service Station but Fortune Oil controls 50% of the management committee.

* In August 2010, Beijing Fuhua Natural Gas Limited together with Beijing Century Dadi Natural Gas Logistic Company Limited established Beijing Fuhua Natural Gas Logistics Limited.

Note to Jointly controlled entities

The Group's share of the results and net assets of its jointly controlled entities is shown below:

	2010			2009		
Amount in £'000	**Bluesky***	**Others**	**Total**	Bluesky*	Others	Total
Revenue	**273,925**	**17,207**	**291,132**	199,438	12,276	211,714
Expenses	**262,728**	**14,230**	**276,958**	194,092	10,295	204,387
Profit before tax	**11,197**	**2,977**	**14,174**	5,346	1,981	7,327
Profit after tax	**8,836**	**2,335**	**11,171**	4,221	1,586	5,807
Non-current assets	**25,793**	**13,991**	**39,784**	25,106	9,684	34,790
Current assets	**42,462**	**8,430**	**50,892**	38,657	4,937	43,594
Current liabilities	**(40,359)**	**(11,251)**	**(51,610)**	(47,739)	(4,600)	(52,339)
Net assets	**27,896**	**11,170**	**39,066**	16,024	10,021	26,045

* South China Bluesky Aviation Oil Company Limited

15. Available-for-sale investments

Amount in £'000	**2010**	2009
Available-for-sale investments comprise:		
Unlisted securities:		
– Equity securities	**–**	849

The amount represented the interest in the PRC companies, Zibo Lubo Gas Company Limited and Shandong Weifang Zhongyuan Fumao Gas Company Limited, which was held by the Group's subsidiary Henan Fortune Green Energy Development Company Limited (HFGE). HFGE was disposed during the year (see note 31).

16. Inventories

Amount in £'000	**2010**	2009
Raw material	**2,384**	2,089
Work in progress	**1,887**	1,368
Finished goods	**9**	1,803
	4,280	5,260

17. Trade and other receivables

Amount in £'000	**2010**	2009
Trade receivables	**22,293**	5,834
Less: Allowance for doubtful debts	**–**	(49)
	22,293	5,785
Due from customer for contract work	**844**	751
Other receivables*	**16,188**	8,018
Prepaid lease payments (see note 13)	**119**	136
Prepayments and accrued income	**5,688**	127
Total trade and other receivables	**45,132**	14,817

* The amount represents mainly payments in advance, deposit for acquisition and loans to non-controlling interests at £3,574,000 (2009: Nil) (See note 29).

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

Amount in £'000	**2010**	2009
0–30 days	**19,702**	4,521
31–60 days	**657**	392
61–90 days	**242**	134
91–120 days	**31**	19
Over 120 days	**1,661**	719
	22,293	5,785

Up to the date of this report, £19,384,000 has been subsequently settled.

Included in the Group's trade receivables balance are debtors with a carrying amount of £2,098,000 (2009: £1,294,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group believes that the amounts are still recoverable as there is continuing subsequent settlement.

Ageing of trade receivables which are past due but not impaired

Amount in £'000	**2010**	2009
0–30 days	**–**	492
31–60 days	**164**	60
61–90 days	**242**	71
91–120 days	**31**	–
Over 120 days	**1,661**	671
	2,098	1,294

Movement in the allowance for doubtful debts

Amount in £'000	**2010**	2009
Balance at 1 January	**49**	54
Amounts written off upon disposal of subsidiary	**(53)**	–
Exchange difference	**4**	(5)
Balance at 31 December	**–**	49

18. Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the statement of financial position) comprise cash at bank and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets is approximately equal to their fair value.

Bank balances carry interest at market rates which range from 0.01% to 0.40% (2009: 0.01% to 0.49%) per annum.

19. Trade and other payables

Amount in £'000	**2010**	2009
Trade payables	**17,794**	7,963
Other payables*	**25,274**	21,837
Payables for taxation and social security	**6**	5
Accruals and deferred income	**3,959**	2,653
	47,033	32,458

* The amount mainly represents receipts in advance and wages payables.

The following is an aged analysis of trade payables at the balance sheet date:

Amount in £'000	**2010**	2009
0–30 days	**3,196**	4,688
31–60 days	**261**	285
61–90 days	**198**	232
91–120 days	**1,454**	167
Over 120 days	**754**	2,591
	5,863	7,963

20. Assets classified as held for sale

On 30 September 2010, the directors decided to dispose of one of the Group's subsidiaries – Beijing Fuhua Dadi Gas Limited. Negotiations with several interested parties took place in 2010, with most of the key terms agreed by year end. The final sale and purchase agreement was signed on 27 January 2011. Accordingly, at 31 December 2010 the assets and liabilities attributable to the subsidiary have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position (see below). The subsidiary is included in the Group's natural gas segment for segment reporting purposes (see note 2).

Management do not consider that Beijing Fuhua Dadi Gas Limited represented a major separate line of business for the Group and accordingly have not disclosed it as "Discontinued Operation".

The major classes of assets and liabilities of the subsidiary classified as held for sale are as follows:

Amount in £'000	
Property, plant and equipment (see note 10)	9,676
Inventories	40
Prepaid lease payments	57
Bank and cash balance	305
Trade and other receivables	547
Total assets classified as held for sale	10,625
Trade and other payables	(2,480)
Borrowings	(394)
Total liabilities classified as held for sale	(2,874)

21. Borrowings

Amount in £'000	**2010**	2009
Current liabilities		
Bank loans	**10,347**	27,277
Other loans	**4,929**	2,915
	15,276	30,192
Non-current liabilities		
Bank loans (see note 26)	**53,904**	7,198
Other loans	**917**	4,282
Loan from major shareholders (see note 29)	**–**	3,907
Loan from non-controlling interests (see note 29)	**1,364**	2,959
	56,185	18,346
Total borrowings	**71,461**	48,538

Bank loans amounting to £3,943,000 are secured, interest bearing at the range from 5.103% to 5.841% p.a. and are repayable within 12 months. A club loan, amounting to £52,226,000, is unsecured, interest bearing at a margin of 2.7% above LIBOR or HIBOR. £5,185,000 of the club loan is repayable within 12 months and the remaining balance is repayable after 12 months. The remaining bank loans of £8,082,000 are unsecured, interest bearing from 5.94% to 6.534% and £1,219,000 is repayable within 12 months.

Other loans are unsecured, interest bearing at the range from 2.50% to 2.55% p.a. (2009: 2.55% to 5.31%).

Included in the above are bank loans with a carrying amount of £64,251,000 (2009: £34,475,000). The Group has fully complied with the covenants attached to these loans. These covenants relate to net asset value, EBITDA to interest ratio, current ratio, liabilities to tangible assets ratio and the debt-equity ratio of the Group.

22. Deferred tax liabilities

Deferred tax comprises:

Amount in £'000	Accelerated tax depreciation	Revaluation of PPE	Revaluation of intangible assets	Other	Total
At 1 January 2009	319	1,433	644	160	2,556
Exchange differences	(24)	(131)	(58)	15	(198)
Reversal of provision on acquisition of subsidiaries	–	–	676	–	676
Withholding tax on dividend (see note 7)	–	–	–	398	398
(Credited)/charged to income statement	(234)	1	(9)	(166)	(408)
At 31 December 2009	61	1,303	1,253	407	3,024
Exchange differences	(5)	109	99	(53)	150
Disposal of subsidiaries	–	(1,518)	(5)	–	(1,523)
Withholding tax on dividend	–	–	–	1,131	1,131
Credited to income statement	(408)	(1)	(8)	(359)	(776)
At 31 December 2010	**(352)**	**(107)**	**1,339**	**1,126**	**2,006**

At the balance sheet date the Group had unused tax losses of £3,950,000 (2009: £4,280,000) arising from operations in the PRC, Hong Kong and the United Kingdom. No deferred tax asset has been recognised in respect of such tax loss due to unpredictability of future profits. The tax losses may be carried forward indefinitely.

From 2008, dividends distributed overseas by foreign invested enterprises in China were subject to tax. The tax rate is 10% for Bluesky dividends and 5% for those from Maoming Single Point Mooring and West Zhuhai Terminal.

23. Share capital

Group

	Number of shares		Share Capital	
	2010 '000	2009 '000	**2010 £'000**	2009 £'000
Ordinary shares of 1p each				
Authorised				
At beginning of year	**3,500,000**	2,400,000	**35,000**	24,000
Increase in authorised share capital	**–**	1,100,000	**–**	11,000
At end of year	**3,500,000**	3,500,000	**35,000**	35,000
Issued and fully paid				
At beginning of year	**1,987,467**	1,928,153	**19,875**	19,282
Issue of share capital	**–**	59,314	**–**	593
At end of year	**1,987,467**	1,987,467	**19,875**	19,875

24. Share-based payments

Analysis of share options as at 31 December 2010:

	2010		2009	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at the beginning of the year	**6,800,000**	**7.38p**	14,800,000	4.88p
Exercised during the year	**(100,000)**	**6.32p**	(8,000,000)	2.75p
Outstanding at the end of the year	**6,700,000**	**7.40p**	6,800,000	7.38p
Exercisable at the end of the year	**5,350,000**	**6.30p**	5,450,000	6.30p

The closing share price at the settlement date for share options exercised during the year was 9.80 pence (2009: 8.20 pence).

The options outstanding at the end of the year have an exercise price in a range from 6.08 pence up to 11.75 pence and a weighted average remaining contractual life of 5.0 Years (2009: 6.0 years).

On 8 June 2005, share options were granted to certain members of staff under the "2004 Approved Scheme" and "2004 Unapproved Scheme" (with details on page 52).

These have been valued using a Trinomial valuation model with the following assumptions:

Fair value at grant date	3.39p
Share price at grant date	6.32p
Exercise price	6.32p
Expected volatility	46.357%
Option life	10 years
Expected dividend yield	nil
Risk-free interest rate	4.145%

On 25 June 2008, a further 1,350,000 share options were granted to certain members of staff under the "2004 Unapproved Scheme" (with details on page 52).

These have also been valued using a Trinomial valuation model with the following assumptions:

Fair value at grant date	6.49p
Share price at grant date	11.75p
Exercise price	11.75p
Expected volatility	35.54%
Option life	10 years
Expected dividend yield	nil
Risk-free interest rate	5.115%

The Group recognised a sum of £100,000 (2009: £500,000) related to share-based payments transactions during the year.

25. Reserves

Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the PRC and Hong Kong operations.

Treasury shares
The shares are held by JTC Trustees Limited as the trustee for future distribution to employees. Following the shareholder approval at the AGM on 25 June 2004, the 2004 Senior Executive Incentive Plan (the "Plan") had been operated by the trustee of the Company's Employee Benefit Trust, subject to the rules of the Long Term Incentive Plan (the "LTIP") as amended in 2004. On 24 June 2009, shareholders have approved the renewal of the LTIP and Plan at the AGM (with details on pages 52 to 54. There is a specified Remuneration Committee Policy in relation to the Policy in relation to the operation of the Plan under the LTIP rules.

On 7 December 2009, the Board of Fortune Oil PLC have allotted at par 37,000,000 new ordinary shares to the Trustees of the Company's Employee Benefit Trust. At 31 December 2010, the investment represented 4.7 per cent (2009: 4.9 per cent) of the called up ordinary share capital of Fortune Oil PLC. Additional details are given in the Remuneration Report.

The total number of shares held in the name of JTC Trustees Limited is 89,810,919 (2009: 92,902,811). The nominal value of these shares is £898,000 (2009: £929,000).

The market value of shares was £10,777,310 at 31 December 2010 (2009: £7,237,129).

Share premium account
Following shareholder approval at the Extraordinary General Meeting on 21 June 2006, a court order was issued on 12 July 2006 authorising the cancellation of the Company's share premium account as at 31 December 2005 of £37,344,000 of which sum of £21,362,000 was set-off against the deficit on the Company's profit and loss account and the sum of £15,982,000 applied in creating a special reserve. Following satisfaction in full of all creditors of the Company at the date of the Petition who had not formally consented to the cancellation of the share premium account, the sum of £15,982,000 held in the special reserve was transferred to the Company's profit and loss account in 2006.

26. Financial instruments

Significant accounting policies
Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 1.

a) Categories of financial instruments

Amount in £'000	**2010**	2009
Financial assets		
Loans and receivables (including cash and cash equivalents)	**139,674**	70,320
Available-for-sale investments	**–**	849
	139,674	71,169
Financial liabilities at amortised cost	**113,735**	77,567
Derivative financial liabilities	**794**	771
Derivative financial liabilities – cash flow hedge	**564**	–
Financial liabilities	**115,093**	78,338

26. Financial instruments *continued*

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the derivative financial liabilities are determined in accordance with generally accepted pricing models based on the fair value of Fortune Liulin Gas Company Limited. The fair value measurements were derived from valuation techniques that include inputs that are not based on observable market data and as such have been classified as a Level 3 fair value measurement.

The fair value measurement of the cash flow hedge financial liability is derived from inputs included within Level 1, which are indirectly observable, and so has been classified as a Level 2 fair value measurement.

There were no transfers between levels during the year.

Derivative financial liabilities

Amount in £'000	
Balance at 1 January 2010	771
Exchange difference	32
Fair value adjustment	(9)
Balance at 31 December 2010	**794**

Cash flow hedges

Under interest rate swap contract, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts of £25,924,000 (US$40,000,000). The average contract fixed interest rate is 1.72% p.a.. The interest rate swaps settle on a monthly basis. The floating rate on the interest rate swaps is USD LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

The interest rate swap contract is designated as cash flow hedges to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

Amount in £'000	
Balance at 1 January 2010	–
Fair value adjustment	564
Balance at 31 December 2010	**564**

26. Financial instruments *continued*

b) Financial risk management objectives and policies

The Group major financial assets and financial liabilities included available-for-sale investments, trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The carrying amounts of financial assets and financial liabilities recorded in the Group financial statements approximate their fair value.

Market risk

i) Currency risk

At present, no foreign exchange hedging is undertaken by the Group. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group's borrowings denominated in foreign currency is as follows:

Amount in £'000	**2010**	2009
US dollars	**52,226**	19,340
Chinese renminbi	**19,235**	29,198
	71,461	48,538

The following table details the Group sensitivity to a 20% increase and decrease in the relevant foreign currencies against GBP. 20% is the sensitivity rate use when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The table shows the decrease in equity that would result from a 20% strengthening of the GBP against the relevant currency. A 20% weakening of the GBP against the relevant currency would increase equity by an equivalent amount.

	RMB Impact		**HKD Impact**		**USD Impact**	
Amount in £'000	**2010**	2009	**2010**	2009	**2010**	2009
Equity - translation reserve	**(28,919)**	(24,125)	**(3,883)**	(5,782)	**957**	2,470

The following table details the Group sensitivity to a 20% increase and decrease in the relevant foreign currencies against RMB. 20% is the sensitivity rate use when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The table shows the impact on profit of a 20% strengthening of the RMB against the relevant currency. A 20% weakening of the RMB against the relevant currency would have an equivalent, opposite impact on profit.

	HKD Impact		**USD Impact**	
Amount in £'000	**2010**	2009	**2010**	2009
Profit or (loss)	**–**	4	**(5,508)**	(488)

26. Financial instruments *continued*

ii) Interest rate risk
The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings. (See Note 21 for details of these borrowings).

The Group's borrowings at the balance sheet date were as follows:

Amount in £'000	**2010**	2009
Non-interest bearing	**1,364**	1,479
Floating rate	**70,097**	47,059
	71,461	48,538

The Group cash flow interest rate is mainly concentrated on the fluctuation of LIBOR, HIBOR and the PRC prevailing borrowing rate. Interest rate hedging for notional amount of £25,924,000 (US$40,000,000) is currently undertaken by the Group and swaps part of the debt to a fixed rate exposure. No interest rate hedging was applied in 2009.

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate. If interest rates had been 5% higher or lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would decrease or increase by £133,000. (2009: decrease or increase by £104,000). The fair value of the cash flow hedge would not be materially affected by these changes in the interest rate.

iii) Commodity price risk
The Group generally considers the volatility in commodity prices to be part of its business environment and accordingly does not hedge market risk resulting from fluctuations in gas and oil prices. The Group holds no financial instruments which are sensitive to commodity price risk.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises on financial instruments such as trade receivables and cash and cash equivalent.

The Company monitors credit risk on trade receivables by scrutinising customers' profiles and periodical review of ageing of amount due.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk in 2010 is £122,642,000 (2009: £61,551,000) which is the total cash equivalents and trade receivables.

26. Financial instruments *continued*

Liquidity risk management
In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the Group has aggregate undrawn banking facilities, which are floating rate, of £115,016,000 (US$177,469,000) (2009: £118,469,000 (US$190,498,000)) as at 31 December 2010.

The average interest rate incurred on debt for the year ended 31 December 2010 is 4.64% p.a. (2009: 4.99%)

The following table shows the details of the Group's expected maturity of the financial instruments, which are different from the actual contract dates.

Amount in £'000	Weight average effective interest rate %	Repayable on demand	1–3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
2010							
Non-derivative financial liabilities							
Trade and other payables	N/A	7,731	14,751	15,093	4,699	42,274	42,274
Bank loans due over 1 year	4.84%	–	–	–	57,230	57,230	53,904
Bank loans due less than 1 year	4.82%	–	–	13,050	–	13,050	10,347
Other loans due less than 1 year	3.28%	–	–	5,013	–	5,013	4,929
Other loans due over 1 year	5.54%	–	–	–	2,387	2,387	2,281
		7,731	**14,751**	**33,156**	**64,316**	**119,954**	**113,735**

Amount in £'000	Weight average effective interest rate %	Repayable on demand	1–3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount
2009							
Non-derivative financial liabilities							
Trade and other payables	N/A	11,245	2,124	6,392	9,268	29,029	29,029
Bank loans due over 1 year	3.56%	–	–	–	8,618	8,618	7,198
Bank loans due less than 1 year	6.13%	–	–	28,098	–	28,098	27,277
Other loans due less than 1 year	3.56%	–	914	2,110	–	3,024	2,915
Other loans due over 1 year	3.10%	–	–	–	11,725	11,725	11,148
		11,245	3,038	36,600	29,611	80,494	77,567

Maturity profile of financial liabilities
The maturity profile of the carrying amount of the Group's non-current borrowings is as follows:

Amount in £'000	2010	2009
One to two years	**52,111**	14,790
Between two and five years	**4,074**	3,556
	56,185	18,346
Interest	**3,432**	1,997
Cash flows	**59,617**	20,343

26. Financial instruments *continued*

c) Fair value of the financial instruments

The book and fair values of the Group's financial instruments at 31 December 2010 and 31 December 2009 are not materially different.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to owners of the parent, comprising issued share capital, various reserves and retained earnings disclosed in notes 23 to 25. During the year ended 31 December 2010 and 2009, the Group has been generating operating profit to sustain its operation and development.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

27. Operating lease arrangements

The Group as lessee:

At the balance sheet date, the Group had outstanding commitments for future minimum lease payment under non-cancellable operating leases in respect of property, which fall due as follows:

Amount in £'000	**2010**	2009
Within one year	**465**	254
In two to five years	**435**	456
Over five years	**371**	765
	1,271	1,475

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two to six years and rentals are fixed for an average of two to six years.

The Group as lessor:

At the balance sheet date, the Group had outstanding future minimum lease receivables under non-cancellable operating leases, which fall due as follows:

Amount in £'000	**2010**	2009
Commitments under operating lease (receivables):		
Within one year	**9**	8
In two to five years	**22**	25
	31	33

Property rental income earned during the year was £8,000 (2009: £159,000). The properties are expected to generate rental yields of 6.5% on an ongoing basis. All of the properties held have committed tenants for the next two to five years.

28. Capital commitments

Amount in £'000	**2010** Commitments for capital expenditure in subsidiaries	**2010** Commitments for capital expenditure in jointly controlled entities	2009 Commitments for capital expenditure in subsidiaries	2009 Commitments for capital expenditure in jointly controlled entities
Outstanding at 31 December 2010				
Contracted for but not provided for in the financial statements	**1,345**	**306**	4,881	52

29. Related party transactions and significant contracts

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

Amount in £'000	Sub note	**2010**	2009
Loans from equity non-controlling interests in subsidiaries (see note 21)	1	**(1,364)**	(2,959)
Loans to equity non-controlling interests in subsidiaries (see note 17)	1	**3,574**	–
Other loans from major shareholders (see note 21)	2	**–**	(3,907)
Interest paid and payable to major shareholders	2	**32**	48
Trade account receivable from non-controlling shareholders	3	**3,161**	425
Shareholder loans to jointly controlled entities (see note 14)	4	**8,651**	5,281
Sales of goods to jointly controlled entities	5	**2,832**	–
Purchase of goods from Vitol Asia	5	**9,692**	2,747
Purchase of goods from jointly controlled entities	5	**1,150**	1,801
Current account with Vitol Asia	5	**(456)**	(437)
Current account with jointly controlled entities	5	**(32)**	(221)

Key management remuneration is disclosed in note 3 to the financial statements.

29. Related party transactions and significant contracts *continued*

Sub Notes

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

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

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

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

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

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

30. Acquisition of subsidiaries

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

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

The purchase agreement for Everthriving Energy specifies that additional consideration of RMB 50 million (£4.93 million) is payable after certain conditions are met, including receipt of government approval for refitting marine diesel oil-LNG dual fuel technology, execution of not less than 1,500,000 tons of marine diesel oil-LNG dual fuel refitting, and obtaining government approval for six LNG refuelling stations along Yangtze river. The directors consider it probable that all of the conditions will be met by the end of 2012, and therefore a provision for additional consideration of £3.32 million has been recorded from the date of acquisition, using a pre-tax discount rate of 17.63%.

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

31. Disposal of interest in subsidiaries

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

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

Amount in £'000	Shuozhou Jingping Natural Gas Limited	Henan Green Energy Group	Total
Interest in jointly controlled entities (see note 14)	–	2,073	2,073
Due from jointly controlled entities (see note 14)	–	1,709	1,709
Available-for-sale investment	–	919	919
Goodwill (see note 11)	40	2,541	2,581
Property, plant and equipment (see note 10)	743	30,361	31,104
Other intangible assets (see note 12)	–	25	25
Prepaid lease payment	–	3,452	3,452
Inventories	3	776	779
Trade and other receivables	67	7,672	7,739
Bank and cash balance	187	2,079	2,266
Trade and other payables	(453)	(13,170)	(13,623)
Taxation	3	(473)	(470)
Deferred tax liabilities	–	(1,523)	(1,523)
Borrowings	–	(2,070)	(2,070)
Due to owners	–	(8,459)	(8,459)
	590	25,912	26,502
Non-controlling interests	(200)	(13,438)	(13,638)
	390	12,474	12,864
Exchange difference	(46)	(1,004)	(1,050)
Gain on disposal	69	3,335	3,404
Total consideration	413	14,805	15,218
Satisfied by:			
Cash and cash equivalents	413	14,805	15,218
Net cash inflow arising on disposal:			
Consideration received in cash and cash equivalents	413	14,805	15,218
Less: cash and cash equivalent disposed of	(187)	(2,079)	(2,266)
	226	12,726	12,952

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

32. Deemed disposal of an interest in a subsidiary

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

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

Amount in £'000	March* 2010	March* 2010	December 2010	Total
Net assets disposed of:				
Intangible assets	**3**	**3**	**3**	
Tangible assets	**11,666**	**11,666**	**17,406**	
Trade and other receivables	**37**	**37**	**42**	
Bank and cash balance	**4,550**	**4,550**	**4,566**	
Trade and other payables	**(603)**	**(603)**	**(5,313)**	
Due to fellow subsidiary	**(436)**	**(436)**	**(639)**	
Due to immediate holding company	**(635)**	**(635)**	**(1,916)**	
	14,582	**14,582**	**14,149**	
% disposal	**5.20%**	**26.10%**	**10.00%**	
Net assets to be disposed	**758**	**3,806**	**1,415**	**5,979**
Additional net asset shared by non-controlling interests	**–**	**–**	**2,537**	**2,537**
Deemed gain on disposal	**724**	**1,011**	**1,687**	**3,422**
Exchange difference	**(18)**	**(88)**	**(1)**	**(107)**
Total consideration	**1,464**	**4,729**	**5,638**	**11,831**
Net cash inflow arising on disposal:				
Cash consideration	**–**	**3,433**	**2,819**	**6,252**
Cash consideration received in 2009	**1,464**	**1,296**	**–**	**2,760**
Cash consideration received in 2011	**–**	**–**	**2,819**	**2,819**
	1,464	**4,729**	**5,638**	**11,831**

* Transactions executed under separate agreements.

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

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

Option 1b
Exercisable within 6 months from 30 June 2011 or a date when an Overall Development Program (ODP) has been approved for part of the block (whichever earlier), under which Dart Energy can invest US$4 million for new shares representing a further 5 per cent of the enlarged issued share capital of FLG.

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

32. Deemed disposal of an interest in a subsidiary *continued*

Option 2

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

33. Hedging reserve

Amount in £'000	**2010**	2009
At 1 January	**–**	–
Loss recognised on cash flow hedges	**564**	–
At 31 December	**564**	–

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

34. Note to cash flow statement

Amount in £'000	Notes	**2010**	2009
Net cash from operating activities			
Profit for the year		**19,542**	15,273
Adjustments for:			
Share of post-tax results of jointly controlled entities	14	**(11,171)**	(5,807)
Taxation	7	**6,526**	2,784
Amortisation	12, 13	**359**	409
Depreciation	10	**8,163**	7,134
Loss on disposal of property, plant and equipment		**302**	218
Loss on disposal of prepaid lease payment		**45**	–
Fair value movement of investment properties		**–**	(362)
Gain on deemed disposal of an interest in a subsidiary	32	**–**	(865)
Gain on disposal of subsidiary undertakings	31	**(3,404)**	–
Share-based payments	24	**100**	500
Investment revenue	6	**(970)**	(421)
Finance costs	5	**2,954**	2,532
Decrease/(increase) in inventories		**593**	(1,016)
(Increase)/decrease in trade and other receivables		**(38,149)**	2,240
Increase in trade and other payables		**42,406**	8,316
Net cash from operations		**27,296**	30,935
Interest paid	5	**(2,954)**	(2,532)
Taxation paid		**(3,970)**	(2,719)
Net cash from operating activities		**20,372**	25,684
Cash and cash equivalents			
Cash and bank balances		**100,349**	55,766

35. Subsequent events

Fortune Oil Acquires Significant Stake in Armenian Iron Ore Mines

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

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

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

Joint Venture Agreement Supplying LNG to Public Transport

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

Fortune Oil Financing

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

five year summary

Amount in £'000	**2010**	2009	2008	2007	2006
Revenue: group and share of jointly controlled entities	**566,886**	403,745	364,722	219,887	175,771
Profit before tax	**26,068**	18,057	15,676	8,821	9,271
Income tax charge	**(6,526)**	(2,784)	(1,501)	(619)	(617)
Profit for the year	**19,542**	15,273	14,175	8,202	8,654
Profit attributable to non-controlling interests	**(6,459)**	(6,431)	(5,198)	(3,715)	(4,347)
Profit attributable to owners of the parent	**13,083**	8,842	8,977	4,487	4,307
Employment of Group Capital					
Non-current assets	**133,068**	143,399	137,564	77,211	49,182
Net current assets	**92,007**	12,167	36,235	15,915	6,615
Creditors:					
Borrowings	**(56,185)**	(18,346)	(34,633)	(27,976)	(5,567)
Deferred tax liabilities	**(2,006)**	(3,024)	(2,556)	(1,527)	(264)
Financial liabilities – cash flow hedges	**(564)**	–	–	–	–
Net assets	**166,320**	134,196	136,610	63,623	49,966
Basic earnings per share	**0.69p**	0.47p	0.49p	0.25p	0.24p

This information is unaudited.

independent auditor's report to the members of Fortune Oil PLC

We have audited the parent company financial statements of Fortune Oil PLC for the year ended 31 December 2010 which comprise the parent company statement of financial position and the related notes 1 to 7. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Fortune Oil PLC for the year ended 31 December 2010.

Matthew Donaldson ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK
27 April 2011

company statement of financial position

at 31 December 2010

Amount in £'000	Notes	2010	2009
Non-current assets			
Investments	2	**71,046**	68,053
		71,046	68,053
Current assets			
Debtors: Amount falling due within one year	3	**118**	63
Cash and cash equivalents		**157**	923
		275	986
Total assets		**71,321**	69,039
Current liabilities			
Creditors: Amounts falling due within one year	4	**(2,740)**	(988)
Net assets		**68,581**	68,051
Capital and reserves			
Share capital	5	**19,875**	19,875
Investment in own shares	6	**(898)**	(929)
Share premium account	6	**10,129**	10,129
Merger relief reserves	6	**19,048**	19,048
Capital reduction account	6	**3,327**	3,327
Profit and loss account	6	**17,100**	16,601
Equity shareholders' equity	7	**68,581**	68,051

The financial statements of Fortune Oil PLC, registered number 2173279, were authorised for issue and approved by the Board on 27 April 2011 and signed on its behalf by:

Li Ching
Director

Tee Kiam Poon
Director

The notes on pages 111 to 114 form part of these financial statements.

notes to the company financial statements

for the year ended 31 December 2010

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and law. As permitted by the Companies Act, the profit and loss of the parent company has not been separately presented in the financial statements. The profit of the Company during the year is £424,000. A cash flow statement has not been presented as permitted by FRS 1 (revised) “Cash flow statements”.

The parent company financial statements are prepared on a going concern basis as explained in the going concern statement in the directors’ report.

Investments

In the Company’s financial statements, investments in subsidiary undertakings are stated at cost, less provision for any impairment.

Share-based payments

The cost of providing share-based payments to employees is charged to the income statement of the entity receiving the sencie. The Company records an increase in investment to subsidiaries when share-based payments are made to employees of a subsidiary. Details of the share schemes can be found in the Remuneration Report and the notes to the Group accounts.

Investment in own shares

Company shares held by the Employee Share Ownership Plan (ESOP) Trust are presented within reserves until such time as the interest in shares is transferred unconditionally to the employees. Costs of administering the Trust are charged to the income statement as incurred.

FRS 29 Exemption

The Company, as a parent company of a group drawing up consolidated financial statements that meet the requirements of IFRS 7, is exempt from disclosures that comply with its UK GAAP equivalent, FRS 29 “Financial Statements: Disclosure”.

Related parties disclosures exemption

The Company has taken advantage of the exemption conferred by FRS 8 “Related Party Disclosures” which allows it not to disclose transactions with Group undertakings as the Company’s financial statements are presented together with the consolidated financial statements of the Group.

2. Investments

Amount in £'000	Investment	Loan	Total
Cost			
At 1 January 2010	58,006	21,535	**79,541**
Additional investment	100	6,469	**6,569**
Loan repayment	–	(4,082)	**(4,082)**
Loan interest income	–	506	**506**
At 31 December 2010	58,106	24,428	**82,534**
Amounts provided			
At 1 January and 31 December 2010	11,488	–	**11,488**
Net book value			
At 31 December 2010	46,618	24,428	**71,046**
At 31 December 2009	46,518	21,535	**68,053**

The Company's subsidiaries are disclosed in note 14 to the consolidated financial statements.

3. Debtors

Amount in £'000	**2010**	2009
Other debtors	**70**	13
Prepayment	**48**	50
	118	63

4. Creditors

Amount in £'000	**2010**	2009
Financial liability – Financial guarantee	**1,843**	857
Other creditors	**792**	25
Accruals and deferred income	**99**	101
Creditors for taxation and social security	**6**	5
	2,740	988

5. Share capital

	Number of shares		**Share Capital**	
	2010 '000	2009 '000	**2010 £'000**	2009 £'000
Ordinary shares of 1p each				
Authorised				
At beginning of year	**3,500,000**	2,400,000	**35,000**	24,000
Increase in authorised share capital	**–**	1,100,000	**–**	11,000
At end of year	**3,500,000**	3,500,000	**35,000**	35,000
Issued and fully paid				
At beginning of year	**1,987,467**	1,928,153	**19,875**	19,282
Issue of share capital	**–**	59,314	**–**	593
At end of year	**1,987,467**	1,987,467	**19,875**	19,875

No movement of the authorised share capital in 2010.

In 2009, the Group increased the authorised share capital during the year in order to partly settle the consideration for acquiring Molopo's 26.1% interest in Fortune Liulin Gas Company Limited.

6. Reserves

Company Amount in £'000	**Investment* in own shares**	**Share premium account**	**Merger relief reserves**	**Capital reduction account**	**Profit and loss account**	**Total**
At 1 January 2009	(594)	8,932	19,048	3,327	16,054	46,767
Issue of shares	(335)	1,057	–	–	–	722
Exercise of share options	–	140	–	–	197	337
Share-based payments	–	–	–	–	500	500
Loss for the year	–	–	–	–	(150)	(150)
At 31 December 2009	(929)	10,129	19,048	3,327	16,601	48,176
Movement in investment in own shares	31	–	–	–	(30)	1
Exercise of share options	–	–	–	–	5	5
Share-based payments	–	–	–	–	100	100
Profit for the year	–	–	–	–	424	424
At 31 December 2010	**(898)**	**10,129**	**19,048**	**3,327**	**17,100**	**48,706**

* The shares are held by JTC Trustees Limited as the trustee for future distribution to employees. Following the shareholder approval at the AGM on 25 June 2004, the 2004 Senior Executive Incentive Plan (the "Plan") is currently operated by the trustee of the Company's Employee Benefit Trust, subject to the rules of the Long Term Incentive Plan as amended in 2004 ("LTIP"). There is a specified Remuneration Committee Policy in relation to the operation of the Plan under the LTIP rules.

On 7 December 2009, the Board of Fortune Oil PLC have allotted at par 37,000,000 new ordinary shares to the Trustees of the Company's Employee Benefit Trust. At 31 December 2010, the investment represented 4.7 per cent (2009: 4.9 per cent) of the called up ordinary share capital of Fortune Oil PLC. Additional details are given in the Remuneration Report.

The total number of shares held in the name of JTC Trustees Limited is 92,902,811 (2009: 92,902,811). The nominal value of these shares is £898,000.

The market value of shares was £10,777,310 at 31 December 2010 (2009: £7,237,129).

7. Reconciliation of movements in shareholders' funds

Amount in £'000	**2010**	2009
Profit/(loss) for the year	**424**	(150)
Issue of share capital	**–**	1,650
Exercise of share options	**5**	337
Movement in investment in own shares	**1**	(335)
Share-based payments	**100**	500
Net increase in shareholders' funds	**530**	2,002
Opening equity shareholders' funds	**68,051**	66,049
Closing equity shareholders' funds	**68,581**	68,051