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

Coal Bed Methane Joint Venture with Shanxi Government and CUCBM

Fortune Oil announces its investment in a key strategic joint venture for the utilisation of coal bed methane ("CBM") in Shanxi Province, one of the world's largest resources of coal seam gas.

Highlights

- The investment will secure a 50 per cent interest in China United Shanxi CBM Company Limited ("Shanxi CBM"), a company already established by Shanxi Energy Industries Group Ltd, an arm of the Shanxi provincial government, and China United Coalbed Methane Corporation Ltd ("CUCBM"), the principal national government body for CBM development in China.
- Fortune Oil's partners are the key central and provincial government companies responsible for exploitation of gas from coal seams in Shanxi.
- This is the first time that a foreign company has partnered the government in such a CBM venture.
- Shanxi CBM will be a major platform for Fortune Oil to collect and market methane gas in Shanxi Province through the acquisition and development of gas infrastructure in this gas-rich region. Participation in the joint venture will provide greater access to gas and downstream opportunities.
- The initial investment of RMB 20.9 million (£1.4 million) will be funded from Fortune Oil's term loan facility announced on 26 April 2007 and the joint venture is expected to be earnings enhancing from 2008.

CBM in Shanxi Province

Shanxi Province currently produces significant volumes of gas from virgin coal seams (coal bed methane, CBM) and from operational coal mines (coal mine methane, CMM). This production is increasing as more coal mines remove gas from coal beds prior to mining in order to prevent explosions.

The gas markets and infrastructure in Shanxi Province are not yet sufficiently developed to utilise this gas, even though the demand for natural gas as a clean fuel in this resource-rich region is expected to be large. As a result, large quantities of methane gas are currently being vented to the atmosphere. Not only is this seen as a waste of an important domestic resource but also the methane emissions are a contributor to global warming.

Joint Venture Creation

Shanxi CBM was established by the central and provincial governments to capture, process and market gas from coal seams in Shanxi Province. Investment by Fortune Oil will assist Shanxi CBM's ability to fund and develop gas distribution networks and will build on Fortune Oil's experience and relationships in the CBM industry. It is anticipated that, with Fortune Oil's involvement, the joint venture will now accelerate the acquisition and construction of gas sales infrastructure, such as facilities for CNG and LNG (compressed and liquefied natural gas), pipelines and city gas networks throughout Shanxi province. Prior to investment in Shanxi CBM, Fortune Oil was already the only foreign company distributing gas in this region, through joint ventures with the provincial gas pipeline company (Shanxi Gas Company) in the north part of the province

The shareholders in the Shanxi CBM joint venture are some of the most important participants in the CBM industry in Shanxi Province. Shanxi Energy Industries Group Ltd is a provincial company tasked by the provincial government with capturing gas from coal in Shanxi, which has one of the world's largest resources of coal seam gas. CUCBM is the government party in the CBM production sharing contracts with foreign investors in Shanxi and other provinces, such as for Fortune Oil's Liulin block. The Shanxi CBM joint venture has received approval from all the requisite government bodies.

Joint Venture Structure

Currently Shanxi CBM operates a retail CNG business in south Shanxi with a small turnover. Net assets at end June 2007 were £0.4 million. Initially Fortune Oil will invest RMB 20.9 million (£1.4 million) to increase the registered capital of Shanxi CBM through two wholly owned subsidiaries, Fortune Gas Investment Co. Ltd and Guangzhou Fortune Oil Co. Ltd, and Fortune Oil will thereby hold a combined 50 per cent in the joint venture. Shanxi Energy Industries Group Ltd will hold 37.2 per cent and CUCBM will hold 9.2 per cent, with the remaining 3.6 per cent held by two other Shanxi government companies.

Mr Qian Benyuan, Chairman of Fortune Oil, commented:

"Fortune Oil is honoured to combine with Shanxi Energy Industries Group and CUCBM in this key venture for utilising Shanxi's vast methane resources. This is a very powerful combination of companies, bringing to bear the necessary industry experience, funding and government support. It is the first time that either Shanxi Energy Industries Group or CUCBM has entered into a joint venture with a foreign company for CBM utilisation. This reflects the strong reputation that Fortune Oil has established in the gas distribution and CBM industries in China and we are very excited about developing this major gas partnership in Shanxi."

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