



31st March 2008

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

Acquisition of Xinyang City Gas

Fortune Oil is pleased to announce the acquisition today of the city gas company in Xinyang, a city with 600,000 residents in the south of Henan Province. This is the largest city to date where the Company has acquired the gas distribution rights.

Xinyang City Gas

Xinyang City is a fast growing transportation hub and administrative centre for a region with a population of 8 million people. The city has significant light industries such as tea processing, automobile parts and packaging materials. The city government established the city gas company in 2001 to sell bottled LPG and developed an outline reticulation network after connecting to the West East Gas Pipeline in 2006. The pipeline assets currently include a 106 km spur to the West East Gas Pipeline and a city gas network of 138 km, with total assets of RMB 222 million (£15.3 million) as at 31 December 2007. The construction of these pipelines was funded by bank loans. The Xinyang city gas operations have a staff of 150, all of whom are expected to be retained by Fortune Oil, including Mr. Qi Zheng, who has been the General Manager of the gas company since formation.

Total sales of gas by these operations were 6.5 million cubic metres in 2007 but this is expected to exceed 16 million cubic metres in 2008, mainly through sales to newly connected CNG stations, commercial and industrial users. Further significant growth in gas sales is expected as the city network is developed, particularly in connecting up industrial users. By the end of 2007 there were 24,500 households who had contracted for a connection, which represents only 15 per cent of the connectable population. As more users are connected up, the principal fuel for city households and factories will become natural gas rather than coal (which is polluting) or LPG (which is more expensive).

Acquisition Highlights

Fortune Oil has agreed to pay the city government RMB 26 million (£1.8 million) for 100 per cent of the shares in the city gas company and its distribution rights for 30 years in all the residential zones and most industrial zones, together with outstanding bank debt of RMB 204 million (£14.1 million). Fortune Oil expects to repay a major part of these bank loans in 2008 in order to optimise the gearing ratio, using funds from existing cash balances. The existing gas network was mostly built in 2007, hence the revenues in 2007 were low at RMB 29 million (£2 million) and profit before interest was break-even. Revenues and profit are expected to grow significantly as the network is developed, without the need for further external funding.

The gas company will be renamed as Xinyang Fortune Gas Company Limited and will be 100 per cent owned by Fortune Gas Investment Company Limited, a 100 per cent subsidiary of Fortune Oil. The acquisition will be effective following registration with the local government bureaus, which should be completed in April.

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

“The acquisition of the Xinyang city gas business is an important step-up in the size of city gas company now controlled by Fortune Oil, in line with our strategy of building an integrated gas company. It further strengthens our customer base in Henan Province following our acquisition of Henan Fortune Green Energy Development Company in 2007. We are very pleased to assist Xinyang, a rapidly expanding city, in accessing clean energy for both the residents and industries.”

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