

25 AUGUST 2011



**FORTUNE OIL PLC**  
**(“Fortune Oil”, “the Company” or together with its subsidiaries “the Group”)**

**Half Year Report for the six months ended 30 June 2011**

***Fortune Oil develops and operates oil and gas supply and infrastructure projects in China. Fortune Oil is quoted on the Main Market of the London Stock Exchange and has its headquarters in Hong Kong.***

**FINANCIAL HIGHLIGHTS**

- Profits attributable to equity shareholders increased 141% to £10.8 million (H1 2010: £4.5 million). The increase was primarily due to the strong contribution from Bluesky and gain on deemed disposal of a subsidiary.
- Continued strong growth in revenues, including the Group’s share of jointly controlled entities, up 35% to £300 million (H1 2010: £222 million).
- Group profit from operations, excluding the gains on deemed disposal of and disposal of subsidiaries, increased by 12% to £11.8 million (H1 2010: £10.6 million).
- Group profit before tax increased by 79% to £17.1 million (H1 2010: £9.5 million).
- Earnings per share increased 141% to 0.57 p (H1 2010: 0.24 p).
- Net cash position down 32% to £19.7 million as at 30 June 2011 (31 December 2010: £28.9 million) with the total Group cash balance remaining strong at £87.3 million (31 December 2010: £100.3 million).

**OPERATIONAL HIGHLIGHTS**

- Natural gas sales in the half year decreased by 20% to 237 million cubic meters due to restructuring of the natural gas business, which includes the divestment of certain gas assets.
- Commencement of extensive drilling programme across the Liulin coal bed methane (“CBM”) block. Gas gathering system is under development to enable commercial gas sales.
- Sales volumes at Bluesky rose by 11% to 1.2 million tonnes.
- West Zhuhai Products Terminal revenues and profit contribution to the Group decreased by 24% and 37%, respectively, due to lower utilisation by PetroChina.
- Maoming Single Point Mooring (“SPM”) revenues increased to £8.0 million as throughput increased by 8%, and net profit for H1 2011 was £2.0 million, RMB 20.6 million, (H1 2010: £2.3 million, RMB 23.6 million).

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

***“I am delighted to report that Fortune Oil has continued to make excellent progress in the first half of 2011 building on the record performance achieved in 2010. Our natural gas business is in the process of being restructured but continued its momentum to become the growth engine of the Company.***

***“The combination of our portfolio of assets, strong local relationships and geographical footprint in China, now the world’s largest energy consumer, will enable Fortune Oil to continue to build on this track record in the second half of the year, increasing our market share in China, and delivering shareholder value.”***

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# FORTUNE OIL PLC

## Half Year Report for the six months ended 30 June 2011

### CHIEF EXECUTIVE'S REVIEW

#### FINANCIAL HIGHLIGHTS

- Record performance in 2010 continued with strong growth in H1 2011.
- Profits attributable to equity shareholders increased 141% to £10.8 million (H1 2010: £4.5 million). The increase was primarily due to the strong contribution from Bluesky and gains of £7.9 million on deemed disposal of and disposal of subsidiaries.
- Revenues including the Group's share of jointly controlled entities increased by 35% to £300 million (H1 2010: £222 million).
- Group profit before tax increased by 79% to £17.1 million (H1 2010: £9.5 million).
- Group profit from operations, excluding gains on deemed disposal and disposal, increased by 12% to £11.8 million (H1 2010: £10.6 million).
- Earnings per share increased 141% to 0.57p (H1 2010: 0.24p). Earnings per share excluding the gains on deemed disposal of and disposal of subsidiaries increased 2% to 0.24p (H1 2010: 0.24p),
- Maiden dividend payment of 0.13p per share for 2010 paid on 24 June 2011.
- Total Group cash balance of £87.3 million as at 30 June 2011 (31 December 2010: £100.3 million).

#### OPERATIONAL HIGHLIGHTS

##### Natural Gas

- Operating profits excluding contributions from Henan Fortune Green Energy Development Co. Ltd. ("HFGE") and Beijing Fu Hua Dadi Gas Limited ("Dadi") and the provision for professional fees for potential acquisition increased by 16% to £4.0 million (H1 2010: £3.4 million )
- H1 2011 operating profit decreased by 13% to £4.0 million (H1 2010: £4.6 million) and volumes decreased by 20% to 237.3 million cubic meters as a result of the divestments made in Q4 2010.
- Two new vehicle natural gas refuelling stations built and put into operation. As of the end of June 2011, the Group now operates seven vehicle gas refuelling stations.
- Piped natural gas connections completed to a further 10,810 residential households (total: 185,000) and 41 commercial/industrial ("C/I") customers (total: 9,908).
- New city gas projects in Liaoning Province and in Hebei Province taking the number of gas projects secured by the Group in China to nine.

- New liquefied natural gas (“LNG”) bus refuelling project in Liaoning Province, the first region-wide LNG intercity bus project supported by the Ministry of Transportation.
- Well positioned to generate strong growth through execution of existing gas projects and ability to develop new projects to meet the growing demand for natural gas in China.

### **Coal Bed Methane**

- 2011 drilling programme on track and targeted at bringing on-stream gas production of 100,000 cubic meters per day to meet the initial gas sales agreement in 2012.
- First of four multilateral wells drilled by Fortune Lulin Gas (“FLG”). The production and lateral wells are drilled from the same surface location minimising land requirements and environmental impact.
- Our Chinese partner CUCBM has drilled over 50 vertical wells in 2011. Gas production from these wells will also be used to meet the gas sales agreement with Shanxi CUCBM.
- Work continues on the engineering design of the gas gathering system and nodal compression station. The gas gathering system will enable delivery of the coal bed methane (“CBM”) to the point of sale at the Shanxi CUCBM wholesale station. The station is currently under construction with the expectation that gas sales will commence in the middle of 2012.
- Contracts are being finalised with the Chinese companies to complete the documentation required for the Overall Development Plan (“ODP”) submission and approval to enter commercial gas production in the middle of 2012.

### **Oil Business**

- Bluesky continues to deliver excellent profit growth with record performance contributing £5.9 million of operating profit for the Group in the first half of 2011 (H1 2010: £3.5 million).
- Bluesky sales volumes increased by 11% to 1.2 million tonnes (H1 2010: 1.1 million tonnes), driven by the continued increase in domestic air travel demand. The Group is continuing to explore further opportunities for investing in new airport refuelling infrastructure in order to take advantage of this increasing demand.
- West Zhuhai Products Terminal revenues and profit contribution to the Group decreased by 24% and 37%, respectively compared to H1 2010 due to reduced utilisation by PetroChina.
- Maoming Single Point Mooring (“SPM”) revenues increased to £8.0 million as throughput increased by 8% and net profit for H1 2011 reduced to £2.0 million, RMB 20.6 million, (H1 2010: £2.3 million, RMB 23.6 million) as a result of increased depreciation costs.

### **Resources**

- SRK Consulting UK is progressing the drilling programme, technical studies and metallurgical test work for the Armenian iron ore mines at Hrazdan and Abovyan. JORC resources estimate on Hrazdan mine is expected in Q4 2011.
- Sinosteel is developing the flow sheet, basic process design and feasibility study for the Hrazdan iron ore processing plant with SRK providing the environment and social studies. All these studies are expected to be completed by end of 2011, enabling the assessment of the viability of developing the Hrazdan mine by Q1 2012.

- The Company announced on the 22 August the appointment of Mr Jerry Gorman as Project Director for the Armenia operations with effect from 1 October 2011. Jerry has more than 30 years mining and metals experience with a proven track record of successfully building, operating and delivering metallurgical and mining projects in South America, Africa and Europe and he will play a crucial role in successfully delivering our projects in Armenia.

No lost time incidents in any of the Group's operations during the period.

## **China Economy**

The first half of 2011 has seen continued global political and economic uncertainty. Oil prices remained above the OPEC target price band driven by unrest and conflict in the Middle East and North Africa despite more recent falls. The nuclear accident following the Japanese tsunami has reopened the question of the role of nuclear power in many countries including China, and several countries in the Eurozone have been facing financial crises.

The main concerns for the Chinese government are in tackling the dual threat of inflation and the house price boom in major cities. China continued to generate strong economic growth although the pace eased slightly over the first half of 2011. According to the National Bureau of Statistics between April and June China's economy grew 9.5% year on year marking a slight slowdown from the first quarter, when GDP grew 9.7% year on year. This reduction in growth is a result of the government increasing the interest rates five times since October 2010 in an attempt to control inflation which increased to a three-year high of 6.4% in June 2011. The Chinese Government's curbs on lending and real estate speculation are starting to show some effect as money supply continued to decelerate sharply in the first half with banks reporting a drop in loans.

Overall, China's economy has cooled significantly since the first quarter of 2010 when growth was at 11.9% year on year easing fears of a sharp decline in China's growth. The expectation is that inflation should have peaked in the middle of 2011. Economic policy is expected to shift to a more relaxed approach in Q4 2011 and, as the impact of credit tightening dissipates, demand for commodities and imports should recover.

## **Outlook**

2011 marks the beginning of the 12<sup>th</sup> Five Year Plan which includes the Chinese government future energy plan for China. The government continues to devote a great deal of effort in promoting the development of the natural gas market and under the 12<sup>th</sup> Five Year Plan the share of natural gas in the primary energy consumption mix is expected to rise from the current 3.9% to 8.3%. To achieve this goal, China will primarily increase the share of electric power generated by natural gas. To meet the growing demand for natural gas, the Chinese government has invested heavily in long distance natural gas pipelines and plans to complete 17 natural gas pipeline projects including the West-East Pipeline III and IV and the China-Myanmar gas pipeline in the coming years. At the same time more and more LNG import terminals are under construction or are being planned along the coast.

Increased availability of gas from these different supply sources and expansion of the gas infrastructure will continue to support expansion of the natural gas market in China which provides Fortune Oil with excellent growth opportunities.

Fortune Oil has a strong local management team with an established track record of developing and operating safe, profitable and reliable businesses in China. The natural gas business ability to maintain strong growth is demonstrated both by effective execution of existing gas projects and our ability to bring new projects on stream. Our recent announcement of our plans to develop a city gas company in Shijiazhuang, Hebei province, with PetroChina and Xinao, two major Chinese energy companies, shows how Fortune Oil is able to partner with major companies in this high growth market.

In our upstream CBM natural gas business we are progressing with the drilling programme. Simultaneously we are progressing with the construction of the gas gathering system and wholesale CNG station to enable us to produce and market the gas produced from the Liulin block in 2012. In the longer term we are looking at developing additional sources of gas to support our downstream gas business. Here our focus will be on gas supply to the transportation and industrial sectors. We see significant new business opportunities in this market segment in China and are developing our capability to implement projects to create and satisfy growing demand.

Our strategy for the Gas and Oil Businesses remains unchanged and we continue to pursue further growth opportunities aligned with China's energy growth requirements. However, in November 2010 we announced an updated corporate strategy which includes pursuing overseas investment opportunities to capitalise on China's growing demand for energy and resources. In just a short period of time, Fortune Oil has made good progress on this strategy and in developing new opportunities in the resources sector for Fortune Oil.

In early 2011 we announced our investment of £16 million to develop iron ore resources in Armenia. We also established a strong strategic alliance with leading Chinese and international organisations which is already providing Fortune Oil with the world class technical and development skills needed to ensure our commercial success in this area. Our initial focus in the next few years is to develop the Hrazdan and Abovyan mines and we expect the technical studies by SRK Consulting UK and basic engineering design by Sinosteel for the Hrazdan mine to be completed towards the end of 2011.

Recognising the stage of the development achieved by the Group, the strength of cash flows and the level of net profit attributable to shareholders, 2011 has also seen the Board determine that it was appropriate to commence paying a dividend on an annual basis to shareholders. Our maiden full year dividend paid on the 24 June 2011 represents a payout rate of approximately 20% of profit after tax attributable to shareholders.

China's economic growth and increasing demand for energy and natural resources provides significant growth opportunities for Fortune Oil. Following yet another strong set of results for the first half of 2011, I look forward to continuing to lead the Company through this expansion phase, focusing on growth, profitability and delivering shareholder value.

TEE Kiam Poon  
Chief Executive  
25 August 2011

## **BUSINESS REVIEW**

### **Chinese Energy Market**

The rapid economic growth in China continues to drive oil consumption with oil demand up 9% year on year for the first half of 2011 (averaging 9.6 million barrels per day) although there were signs by July 2011 that China's tightening economic policy is reducing the level of oil demand. China's total oil demand growth has been led by diesel demand which represents a third of the country's primary oil use. Diesel demand was up 13.3%, gasoline demand rose 10%, and jet fuels demand rose by 9.5% year on year in the first five months of 2011.

China's demand for natural gas continues to grow dramatically. China consumed 21% more natural gas in the first half of 2011 compared to the same period in 2010, taking consumption to an estimated 63.1 billion cubic meters. Natural gas imports accounted for 22.4% of China's national gas consumption, doubling to 14.1 billion cubic meters over the first half of 2011, with 6.9 billion cubic meters of gas piped from central Asia and imports of LNG reaching 7.2 billion cubic meters. The second West to East gas pipeline went into operation in July 2011 and this will enable supplies of Turkmenistan gas into Central, South and Eastern China to increase and, as more cities along the pipeline get connected and gas starts to flow, further demand will be stimulated.

The rapid industrialisation and urbanisation of China will see natural gas gradually become the major fuel for the city gas market, presenting considerable potential for the development of new city gas projects. City gas projects typically provide the operator of the gas network with exclusive gas supply rights for 25 to 30 years. By 2020 China's natural gas demand could be as high as 300 billion cubic meters which is projected to represent about 10% of China's total energy consumption.

In order to meet this growing demand for gas without becoming overly dependant on imports, China continues to drive the development of its indigenous conventional and unconventional gas resources. However, CBM and shale gas are both still in their early stages of development in China. Currently CBM production is around 1.5 billion cubic meters per annum with estimated CBM reserves of 36.8 trillion cubic meters. China has ambitions to increase annual CBM production to 10 billion cubic meters by 2015 and 20 billion cubic meters by 2020. The expectation is that the Chinese Government will continue to provide greater incentives for unconventional gas developers to stimulate the investment needed to bring these resources on stream.

### **NATURAL GAS BUSINESS**

Since entering the natural gas market eight years ago, the Fortune Gas business has continued to expand rapidly and we are on track for this to be the future growth engine of the Group.

The natural gas business strategy is to build an integrated gas business linking Fortune upstream CBM gas production with downstream markets. The focus of the downstream gas business is on city gas networks with high industrial gas demand and supplying natural gas as a fuel for the transportation sector due to the higher gas margins in these two sectors.

As part of the restructuring of the natural gas business in Q4 2010, Fortune Oil disposed of HFGE. Consequently, revenue including the share of jointly controlled entities of the gas division in H1 2011 decreased by 31% to £31.8 million, RMB 336 million, (H1 2010: £46.3 million, RMB 478 million) and gas sales volume decreased by 20% to 237 million cubic meters (H1 2010: 298 million cubic meters). The operating profit for the gas business decreased by 13% to £4.0 million, RMB 42 million compared to £4.6 million, RMB 47 million in the same period in 2010. However, the net profit for the gas business increased by more than four times to £10.2 million, RMB 107 million mainly as a result of the gains on the deemed disposal of and disposal of subsidiaries of £7.9 million, RMB 84 million.

The underlying growth of the gas business excluding the impact of the divestment is still strong with underlying group revenues up by 25% and operating profits increasing by 16% to £4.0 million (i.e. Revenue / Operating profits excluding contribution from HFGE and Dadi and the provision for professional fees for potential acquisition). A further 10,810 new customers were connected in this period (H1 2010: 7,876), representing a 37% increase in the rate of connections demonstrating the continued growth as new city gas networks are connected to a gas supply.

Dashiqiao is a city gas project aligned with the gas strategy of developing city gas networks in areas with high potential industrial demand. Dashiqiao has a large magnesium industry and Fortune Gas has the rights and obtained full approval to develop the city gas network and gas supply pipeline linking the major transnational pipelines to the customer. The main CNPC pipeline to Dashiqiao has been completed with gas supply expected to commence from October 2011. Gas is currently being supplied to customers via a temporary city gate CNG/LNG station.

Aligned with the target markets Fortune Oil announced three new investments in the first half of 2011 and made further progress to bring natural gas as a fuel for ships on the Yangtze River.

#### 1. Jianping Gas Pipeline

Acquiring a 51% equity stake in Liaoning Jingrun Natural Gas Company for RMB 10.55 million (£1.0 million) provides the thirty year right to develop the spur pipeline and gas distribution in the Jianping areas. Fortune Gas has secured gas supply from Petrochina for up to 200 million cubic meters of natural gas per annum. A temporary LNG gas supply station has been installed with gas supply planned from October 2011 with the focus on the major ceramics industry in the city which currently uses coal and heavy fuel oil. These fuels are progressively being substituted by cleaner burning natural gas due to government requirements to improve local air quality.

#### 2. Joint venture between Fortune Oil, PetroChina Kunlun Gas and Xinao Gas in Hebei Province

The new joint venture between Fortune Oil, Petrochina Kunlun Gas and Xinao Gas will supply natural gas to Shijiazhuang, the provincial capital of Hebei province, together with the 17 county level cities within the Shijiazhuang municipal region. Shijiazhuang alone has a potential 2.4 million connectable customers with gas demand of between 250 and 400 million cubic meters of gas per annum.

#### 3. LNG Bus Refuelling Joint Venture in Liaoning Province

The rapid expansion in the use of natural gas as a fuel for the transportation sector provides Fortune Oil an opportunity to invest in refuelling facilities to supply natural gas to this sector. During the period Fortune Oil therefore announced the joint venture in Liaoning Province to supply LNG to public buses in Liaoning province using LNG stations which will be operated by Fortune Liaoning.

This is a provincial level project approved by the Ministry of China National Transportation and the planning and approval process is progressing with the target to start supplying buses with LNG fuel on the Fushun to Shenyang route from the end of 2011. Initially refuelling will be through mobile refuelling stations which can be located to meet expanding fuel demand. Negotiations are also underway to supply LNG fuel on the inter city bus routes between the Shenyang, Liaoyang and Chaoyang across Liaoning province.

#### 4. Yangtze River LNG Ship refuelling Joint Venture

In our joint venture to bring natural gas as a fuel to ships on the Yangtze River, the documentation to obtain the first full license of a commercial LNG dual fuel ship has been submitted to the Chinese authorities and approval is expected Q4 2011.

This will be the first such approval of a dual fuel ship in China and is an essential step to enabling deployment of these ships into commercial operations. Fortune Gas has identified the locations for the first two permanent LNG refuelling stations along the Yangtze River and the planning and design process is being progressed.

These are the first of a series of stations Fortune Gas is currently planning to build along the Yangtze River. Negotiations are also ongoing with a leading shipping company to commence conversion of its ships to dual fuel technology and the fuel supply arrangements for these ships.

## **COAL BED METHANE**

Fortune Gas is seeking opportunities to access upstream gas resources and integrate the gas production with its downstream gas markets. CNOOC is now a shareholder in CUCBM (Fortune Lulin Gas" ("FLG") government partner) and this is expected to lead to greater activity in CBM to ensure China meets its CBM production targets under the new 12<sup>th</sup> Five Year Plan. Fortune Gas with its Liulin CBM project designated as a State Pilot projects is strategically well positioned to capitalise on this expansion of CBM and integrate gas supply with Fortune Gas downstream markets in Shanxi Province.

FLG is investing alongside CUCBM, with the objective of demonstrating a gas production capacity of 50 million cubic metres per annum from 45 to 50 vertical and 5 lateral production wells drilled by the partners.

The drilling programme underway is aiming to initially produce 100,000 cubic meters per day (33 million cubic meters per annum) from the northern section of the block. By the end of July 2011 FLG had drilled and completed one lateral well in the northern section of the block with a designated in-seam drilling length of 6,800 meters (seams 3, 4 and 5). FLG is currently drilling three more horizontal wells which will be completed by the end 2011.

FLG is using a new well design model which has enabled the engineering and production wells to be drilled from the same drill pad thereby reducing the footprint, land acquisition costs and road access requirements. FLG also completed one vertical well for seams 3, 4 and 5 on the northern section of the block and will put this into test production in Q4 2011.

The feasibility study has been completed for the gas gathering system, designed to collect 800,000 cubic meters per day from the northern section. It is expected to take six months to complete construction of the gas gathering system and the nodal compression station, which will then pipe the gas directly to the Shanxi CUCBM wholesale CNG station.

FLG and CUCBM will sell the CBM gas to Shanxi CUCBM, a joint venture between Fortune Oil and CUCBM. The parties have signed a gas sale agreement and the CNG wholesale station to market CBM gas from the Liulin CBM block is currently under construction. In August 2011 Shanxi CUCBM also opened a retail CNG station in Changzhi which will supply CBM gas to refuel CNG vehicles in the city.

FLG is collaborating with CUCBM on the Liulin block and is progressing towards submission of the Overall Development Plan (ODP) for approval to enter commercial gas production in the middle of 2012. We believe this will not only provide evidence of the viability of the CBM sector in China, but also highlight the progress towards the long-term contribution that CBM can make to China's overall energy needs.

## **OIL BUSINESS**

### **Aviation Refuelling (South China Bluesky Aviation Oil Company)**

Bluesky achieved jet fuel volume growth of 11% to 1.2 million tonnes with net profits of £24.2 million (RMB 256 million) (H1 2010: £14.3 million, RMB 148 million). Given recent momentum we are confident in achieving another strong performance in 2011. Management continues to enhance its cost management and procurement strategy to reduce reliance on imported jet fuel and optimise fuel supply from local refineries in China.

Demand for air travel continues to expand rapidly. Under the 12<sup>th</sup> Five Year Plan the Chinese government announced that it will open 45 new airports across China at a cost of RMB 1.5 trillion (£143 billion) within the next five years bringing the total number of airports in China to 220. Fortune Oil will continue to evaluate opportunities to invest in new refuelling infrastructure to help meet the increasing demand for jet fuel.

The jet fuel price has remained stable in the first half of 2011 and China's government continues to ensure that domestic prices for transportation fuels track changes in international prices. As a result, the operating margin in the aviation refuelling businesses has also remained stable.

### **Maoming Single Point Mooring**

The Maoming SPM volume throughput in the first half of 2011 increased 8% to 5.2 million tonnes (H1 2010: 4.8 million tonnes). The joint venture achieved revenue of £8.0 million (RMB 84.6 million) of which £7.5 million (RMB 79.8 million) was from throughput charges and £0.5 million (RMB 4.8 million) was from tugboat leasing. Net profit for H1 2011 was £2.0 million, RMB 20.6 million, (H1 2010: £2.3 million, RMB 23.6 million). Increased costs are being incurred mainly due to the shortened depreciation period of recent capital expenditures. Presently we are negotiating with our Joint Venture partner to extend the Joint Venture contract which is due to expire in November 2012.

In its 18 years of operation, Maoming SPM continues to have an accident and spill-free record indicating reliable operational controls.

### **Products Terminal and Supply**

The **West Zhuhai Products Terminal (South China Petroleum Company)** performance deteriorated over the first half of 2011. The throughput for the first half was 1.3 million tonnes (H1 2010: 1.3 million tonnes), with lower total revenues to £3.0 million (RMB 32 million). The profit contribution to Fortune Oil decreased to £0.4 million (RMB 4.4 million) compared to £0.7 million (RMB 6.8 million) in H1 2010 due to reduced usage of the terminal during the period.

This terminal continues to play an important role for Petrochina given its strategic interest in the asset and downstream strategy in Southern China and is undergoing expansion to increase storage capacity and expand the range of products which can be distributed through the terminal at any one time.

The **Trading Business** continues to focus on non-regulated oil and petrochemicals products. The activities generated a turnover that increased by 134% to £77.5 million, equivalent to RMB 820 million, (H1 2010: £33.1 million, RMB 341 million). Profits from operations amounts to £0.6 million in H1 2011 (H1 2010 £0.2 million). The trading business continues to explore options for the expansion of products that it trades.

## **RESOURCES**

In November 2010 Fortune Oil launched its resources strategy in order to actively pursue overseas investment opportunities to capitalise on the demand for energy and resources in China. In line with this strategy Fortune Oil announced in early 2011 its investment of £16 million to acquire a 33% effective interest in three Armenian iron ore mines. Fortune Oil also has the option to increase its effective interest in these three mines to 51% for a further £10 million.

Currently SRK Consultants (UK) are overseeing a drilling programme and metallurgical test work to bring the Hrazdan and Abovyan resource estimates to JORC resource standards which is expected to be completed for Hrazdan in Q4 2011. Sinosteel is preparing the flow sheet, basic design for the Iron ore processing plant and the Feasibility Study is due to be completed by end of 2011 with a view to determine the viability of developing the Hrazdan mine.

## FINANCIAL REVIEW

### Revenue and Expenditure

Revenues including the Group's share of jointly controlled entities increased substantially by 35% to £300 million (RMB 3,174 million) in H1 2011 from £222 million (RMB 2,294 million) in H1 2010. This was largely driven by the rapid growth in the Group's aviation refuelling business and its trading activities partly off-set by the decrease in the Group's Gas business due to the divestment of HFGE in October 2010. Group revenue excluding jointly controlled entities also increased substantially in H1 2011 to £112.8 million (RMB 1,194 million) from £84.8 million (RMB 875 million) in H1 2010.

Given that on the 30 June 2011 Dart Energy became able to exercise an option to acquire a further 5% interest in Fortune Liulin Gas Co. Ltd. ("FLG") taking its shareholding interest to 50% in aggregate, the Group is deemed to have lost control for accounting purposes over FLG and hence, has accounted for it as a jointly controlled entity. Together with the disposal of another subsidiary in the Gas business, the Group has realised gains on deemed disposal of and disposal of interests in subsidiaries of £7.9 million (H1 2010: Nil).

Before the gains on the deemed disposal of and disposal of interests in subsidiaries, the operating profit was £11.8 million (RMB 125 million) in H1 2011, compared with £10.6 million (RMB 109 million) in H1 2010, an increase of 12%. This increase is mainly due to continuing growth in the aviation refuelling business.

Distribution expenses decreased by 66% to £2.6 million (RMB 28 million) in H1 2011 mainly due to the exclusion of the expenses from HFGE.

The after tax net profit attributable to equity shareholders, including gains on deemed disposal of and disposal of subsidiaries, was £10.8 million (RMB 114 million), a substantial increase of 141% compared to £4.5 million (RMB 46 million) in H1 2010. Earnings per share also increased significantly to 0.57 pence compared with 0.24 pence in H1 2010.

### Capital Expenditure and Acquisition

Capital expenditure and acquisitions totalled £25.6 million (RMB 266 million) of which £8.6 million (RMB 89 million) was capital expenditure by the Group and £17.0 million (RMB 177 million) was mainly in respect of the acquisition of the iron ore mining rights. The capital expenditure mainly consisted of the expansion of gas pipeline networks, and replacement of pipeline in Single Point Mooring. Property, plant and equipment had decreased by 26% to £48.2 million (RMB 501 million) as at 30 June 2011. This is mainly due to the deemed disposal of assets in FLG (as discussed above) as well as the depreciation charge for the period.

### Financial Position

The net assets of the Group as at 30 June 2011 were £174.6 million (RMB 1,814 million), compared with £166.3 million (RMB 1,687 million) as at 31 December 2010. The net cash position as at 30 June 2011 was £19.7 million (RMB 204 million) compared with £28.9 million (RMB 293 million) as at 31 December 2010. Together with the positive cash flow from operations, 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 £3.5 million (RMB 37 million) in H1 2011, compared to £1.3 million (RMB 14 million) in H1 2010. This was mainly due to the increase in effective interest rates and average loan balances, and the write off of the capitalised upfront fee of syndicated loans arranged by Standard Chartered Bank, which was repaid early in April 2011. Group borrowings as at 30 June 2011 have slightly decreased to £67.7 million (RMB 703 million) compared with £71.5 million (RMB 725 million) as at the end of 2010. The net gearing ratio (after deduction of cash) for the Group remained negative as of 30 June 2011 and 31 December 2010.

The Group's tax charge for the period ended 30 June 2011 was £3.2 million (H1 2010: £1.7 million) representing an effective tax rate of 18.6% compared with 18.3% in H1 2010. 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. The increase in tax charge also results from the provision for tax on the gain on disposal of a subsidiary, and the withholding tax on the dividends distributed overseas by foreign invested enterprises in China.

### **Foreign Exchange**

The revenues and expenses of the Group are mainly denominated in China's renminbi (RMB). The remaining expenses are denominated either in pound sterling (£) or in Hong Kong dollars (HK\$), which is pegged to the US dollar (US\$), or in United States dollars (US\$). On average for the six months ended 30 June 2011, the RMB appreciated against the US\$ by 4.0% and the pound sterling appreciated by 6.7% against the US\$, hence there was an overall 2.4% appreciation of the pound sterling against the RMB. This currency movement has had the effect of decreasing our profits as measured in pound sterling.

The assets and liabilities of the Group are also primarily denominated in RMB with our Armenian investment being denominated in US\$. The balance which represents a small proportion of the assets and liabilities are denominated in pound sterling and HK\$. In line with the average annual rates, the closing pound sterling exchange rate appreciated against the RMB by 2.4% and 4.1% against the US\$ when comparing the rate on 31 December 2010 with the rate on 30 June 2011.

The Group 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 People's Republic of China 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 Group's interests in Armenia are held through a separate investment structure. The Group's UK operations consist only of local representation as a direct expense to the Company.

### **Refinancing**

On 1 April 2011, Fortune Oil PRC Holdings Limited signed a US\$180 million (£112 million) loan agreement. The facility is denominated in US\$ 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 was to maximise the borrowing capacity and to lock in low-cost financing at current levels before central banks across Asia-Pacific, particularly China, began to tighten liquidity aggressively. The undrawn amounts of US\$100 million (£62 million) financing will be 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, a final dividend for the year ended 31 December 2010 of 0.13p per ordinary share has been paid on 24 June 2011 to ordinary shareholders on the register on 20 May 2011.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

Our business is supplying China with energy and resources, principally oil and natural gas with recent expansion into iron ore mines in Armenia. There are number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. These risks have not changed since the date of Annual Report 2010, where the principal risks and uncertainties are detailed on pages 22 and 23.

The principal risks and uncertainties facing Fortune Oil's operations include: concentration risks, financial risks, regulatory and relationships risks, health, safety and environment (HSE) risks, attraction and retention of key employees, development risks and uninsured risks.

## **GOING CONCERN STATEMENT**

The Group's business activities and associated opportunities and risks are set out above in the "Business Review" and "Principal Risks and Uncertainties". The financial position of the Group, its cash flows and liquidity position is described in the Financial Review. 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 operation and mitigate the effects of fluctuations in cash flows. The Group meets part of its capital expenditure requirements from medium term loan facilities.

The current economic conditions may create uncertainty over:

- (a) The level of demand for the Group's products and services;
- (b) International exchange rates that affect commodity prices and hence the Group's revenues in China as denominated in US dollars or sterling;
- (c) The availability of bank or equity finance in the foreseeable future; and
- (d) Counterparty credit risk.

As at 30 June 2011, the Group had a cash balance of £87.3 million and a net cash balance of £19.7 million. In addition, the Group has entered into a US\$180 million (£112 million) loan facility in April 2011 and it expects to generate positive cash flow from operations. As at 30 June 2011, the undrawn amounts of this loan facility is US\$100 million (£62 million). The Group's current forecasts and projections, adjusting for reasonably possible changes in trading conditions, show that the Group will be able to repay the interest and principal payments in a timely manner in accordance with loan agreements and to operate within the required covenants.

The Directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, Fortune Oil continues to adopt the going concern basis in preparing the half year report and accounts.

## **RESPONSIBILITY STATEMENT PURSUANT TO DTR 4.2**

The names and functions of the Directors of Fortune Oil are listed in the Company's Annual Report for 2010. We confirm that, to the best of each person's knowledge:

- 1) The condensed set of financial statements, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;

2) The interim management report includes a fair review of important events that have occurred during the first six months of the financial year, and their impact on the on the half yearly financial report and a description of the principal risks and uncertainties for the remaining six months of the financial year in accordance with DTR 4.2.7R; and

3) The interim management report includes a fair review of disclosures related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or the performance of the Group during that period and any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year in accordance with DTR 4.2.8 R.

By order of the Board

**Tee Kiam Poon**  
Chief Executive Officer

**FORTUNE OIL PLC**  
**Half Year Financial Statements**  
**Consolidated Income Statement**

Amount in £'000	Notes	<b>6 months ended 30.06.11 (Unaudited)</b>	6 months ended 30.06.10 (Unaudited)
Revenue including share of jointly controlled entities	3	<b>300,097</b>	222,184
Share of revenue of jointly controlled entities	3	<b>(187,258)</b>	(137,411)
<b>Group revenue</b>	3	<b>112,839</b>	84,773
Cost of sales		<b>(99,857)</b>	(65,087)
<b>Gross profit</b>		<b>12,982</b>	19,686
Distribution expenses		<b>(2,603)</b>	(7,619)
Administrative expenses		<b>(5,730)</b>	(6,191)
Share of results of jointly controlled entities	9	<b>7,195</b>	4,684
<b>Profit from operations</b>		<b>11,844</b>	10,560
Other gains	14	<b>7,932</b>	-
Finance costs		<b>(3,465)</b>	(1,342)
Investment revenue		<b>778</b>	313
<b>Profit before tax</b>		<b>17,089</b>	9,531
Income tax charge	4	<b>(3,184)</b>	(1,743)
<b>Profit for the period</b>		<b>13,905</b>	7,788
Attributable to:			
Owners of the parent		<b>10,808</b>	4,480
Non-controlling interests		<b>3,097</b>	3,308
		<b>13,905</b>	7,788
<b>Earnings per share</b>			
Basic	6	<b>0.57p</b>	0.24p
Diluted	6	<b>0.57p</b>	0.24p

All results shown are from continuing operations.

**FORTUNE OIL PLC**

**Half Year Financial Statements**

**Consolidated Statement of Comprehensive Income**

	<b>6 months ended 30.06.11 (Unaudited)</b>	6 months ended 30.06.10 (Unaudited)
Amount in £'000		
<b>Profit for the period</b>	<b>13,905</b>	7,788
Exchange differences arising on translation of foreign operations	<b>(2,969)</b>	10,377
Gain on cash flow hedges arising during the period	<b>564</b>	-
Other comprehensive (loss)/income for the period	<b>(2,405)</b>	10,377
<b>Total comprehensive income for the period</b>	<b>11,500</b>	18,165
Attributable to:		
Owners of the parent	<b>9,578</b>	11,458
Non-controlling interests	<b>1,922</b>	6,707
	<b>11,500</b>	18,165

**FORTUNE OIL PLC**

**Half Year Financial Statements**

**Consolidated Statement of Financial Position**

Amount in £'000	Notes	30.06.11 (Unaudited)	31.12.10 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	48,243	65,194
Goodwill	10	2,957	4,068
Other intangible assets	8	32,524	14,473
Prepaid lease payments		1,680	1,616
Investments in jointly controlled entities	9	68,582	47,717
		<b>153,986</b>	<b>133,068</b>
<b>Current assets</b>			
Inventories		11,200	4,280
Trade and other receivables		66,271	45,132
Cash and cash equivalents		87,331	100,349
Assets classified as held for sale	14	-	10,625
		<b>164,802</b>	<b>160,386</b>
<b>Total Assets</b>		<b>318,788</b>	<b>293,454</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	11	11,554	15,276
Trade and other payables		71,859	47,033
Current tax liabilities		1,856	3,196
		<b>85,269</b>	<b>65,505</b>
Liabilities directly associated with assets classified as held for sale	14	-	2,874
		<b>85,269</b>	<b>68,379</b>
<b>Non-current liabilities</b>			
Borrowings	11	56,106	56,185
Deferred tax liabilities		2,792	2,006
Financial liabilities - cash flow hedges		-	564
		<b>58,898</b>	<b>58,755</b>
<b>Total Liabilities</b>		<b>144,167</b>	<b>127,134</b>
<b>Net Assets</b>		<b>174,621</b>	<b>166,320</b>

<b>Equity</b>			
<b>Capital and reserves</b>			
Ordinary shares	12	<b>19,875</b>	19,875
Treasury shares		<b>(878)</b>	(898)
Share premium		<b>10,129</b>	10,129
Other reserve		-	3,422
Hedging reserve		-	(564)
Foreign currency translation reserve		<b>21,457</b>	23,653
Retained earnings		<b>72,273</b>	60,316
Equity attributable to owners of the parent		<b>122,856</b>	115,933
Non-controlling interests		<b>51,765</b>	50,387
<b>Total Equity</b>		<b>174,621</b>	166,320

**FORTUNE OIL PLC**

**Half Year Financial Statements**

**Consolidated Cash Flow Statement**

Amount in £'000	Notes	6 months ended 30.06.11 <b>(Unaudited)</b>	6 months ended 30.06.10 (Unaudited)
<b>Net cash from operating activities</b>	15	<b>6,891</b>	675
Interest received		778	313
Dividend received from jointly controlled entities		716	-
Payment for property, plant and equipment		<b>(8,583)</b>	(4,466)
Payment for other intangible assets		<b>(423)</b>	(6)
Payment for prepaid lease payments		<b>(46)</b>	(43)
Receipt from disposal of subsidiary undertakings		357	-
Payment for acquisition of subsidiary undertakings		<b>(6,720)</b>	(1,275)
Consideration for disposal of interest in a subsidiary		-	3,524
Receipt from disposal of property, plant and equipment		-	256
Receipt from disposal of prepaid lease payment		-	9
Loan to jointly controlled entities		<b>(63)</b>	(2,262)
<b>Net cash used in investing activities</b>		<b>(13,984)</b>	(3,950)
Dividend payment	5	<b>(2,468)</b>	-
Repayment of loans to non-controlling shareholders		<b>(83)</b>	(670)
Dividend paid to non-controlling shareholders		<b>(423)</b>	(96)
New bank loans raised		<b>52,100</b>	26,541
Repayment of borrowings		<b>(52,949)</b>	(21,947)
<b>Net cash (used in)/from financing activities</b>		<b>(3,823)</b>	3,828
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(10,916)</b>	553
<b>Cash and cash equivalents at beginning of the period</b>		<b>100,349</b>	55,766
Cash flow effect of foreign exchange rate changes		<b>(2,102)</b>	4,131
<b>Cash and cash equivalents at end of the period</b>		<b>87,331</b>	60,450

## FORTUNE OIL PLC

### Half Year Financial Statements

#### Consolidated Statement of Changes in Equity

	Issued capital		Share premium	Other reserve	Hedging reserve	Foreign	Retained earnings	Attributable	Non-controlling interests	Total equity
	Ordinary shares	Treasury shares				currency translation reserve		to owners of the parent		
<b>Balance at 1 January 2010</b>	19,875	(929)	10,129	-	-	13,854	47,157	90,086	44,110	134,196
Profit for the period	-	-	-	-	-	-	4,480	4,480	3,308	7,788
Exchange differences arising on translation of foreign operations	-	-	-	-	-	6,978	-	6,978	3,399	10,377
<b>Total comprehensive income for the period</b>	-	-	-	-	-	6,978	4,480	11,458	6,707	18,165
Payment of dividends	-	-	-	-	-	-	-	-	(3,552)	(3,552)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	481	481
Deemed disposal of 31.3% interest in a subsidiary	-	-	-	2,232	-	-	-	2,232	(2,572)	(340)
Consideration for disposal of 31.3% interest in a subsidiary	-	-	-	-	-	-	-	-	7,181	7,181
Share-based payments	-	-	-	-	-	-	100	100	-	100
<b>Balance at 30 June 2010 (Unaudited)</b>	<b>19,875</b>	<b>(929)</b>	<b>10,129</b>	<b>2,232</b>	<b>-</b>	<b>20,832</b>	<b>51,737</b>	<b>103,876</b>	<b>52,355</b>	<b>156,231</b>

<b>Balance at 1 January 2011</b>	<b>19,875</b>	<b>(898)</b>	<b>10,129</b>	<b>3,422</b>	<b>(564)</b>	<b>23,653</b>	<b>60,316</b>	<b>115,933</b>	<b>50,387</b>	<b>166,320</b>
Profit for the period	-	-	-	-	-	-	10,808	10,808	3,097	13,905
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(1,794)	-	(1,794)	(1,175)	(2,969)
Cash flow hedges realised during the period	-	-	-	-	564	-	-	564	-	564
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>564</b>	<b>(1,794)</b>	<b>10,808</b>	<b>9,578</b>	<b>1,922</b>	<b>11,500</b>
Payment of dividends (note 5)	-	-	-	-	-	-	(2,468)	(2,468)	(423)	(2,891)
Exercise of share options	-	-	-	-	-	-	99	99	-	99
Movement in treasury shares	-	20	-	-	-	-	(4)	16	-	16
Acquisition of subsidiaries (note 13)	-	-	-	-	-	-	-	-	10,668	10,668
Disposal of subsidiaries (note 14)	-	-	-	(3,422)	-	(402)	3,422	(402)	(10,789)	(11,191)
Share-based payments	-	-	-	-	-	-	100	100	-	100
<b>Balance at 30 June 2011 (Unaudited)</b>	<b>19,875</b>	<b>(878)</b>	<b>10,129</b>	<b>-</b>	<b>-</b>	<b>21,457</b>	<b>72,273</b>	<b>122,856</b>	<b>51,765</b>	<b>174,621</b>

## **Notes to the condensed set of financial statements**

### **Six months ended 30 June 2011**

#### **1. Basis of preparation**

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, as adopted by the European Union.

The financial information for the six months ended 30 June 2011 and 30 June 2010 was neither audited nor reviewed by the auditors. The information for the year ended 31 December 2010 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on these accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of no less than twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements. Detail of the factors that which have been taken into account in assessing the Group's going concern status are set out on page 14 of the Business Review.

#### **2. Significant accounting policies**

The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The same accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2010.

#### **3. Segmental Reporting**

The Group has adopted IFRS 8 Operating Segments to identify seven 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", "Resources" and "Others".

Information regarding these segments is presented below.

## a) Operating segments

	Natural Gas		Oil					
			Single point mooring facility		Aviation Refuelling		Trading	
	2011	2010	2011	2010	2011	2010	2011	2010
Amount in £'000	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue including share of jointly controlled entities	<b>31,759</b>	46,283	<b>7,995</b>	7,418	<b>177,736</b>	130,483	<b>77,495</b>	33,066
Share of revenue of jointly controlled entities	<b>(4,410)</b>	(1,994)	-	-	<b>(177,736)</b>	(130,483)	-	-
<b>Group revenue</b>	<b>27,349</b>	44,289	<b>7,995</b>	7,418	-	-	<b>77,495</b>	33,066
<b>Profit from operations (including share of results of jointly controlled entities)</b>	<b>3,985</b>	4,589	<b>2,466</b>	2,716	<b>5,913</b>	3,506	<b>580</b>	188
Office overheads *								
<b>Operating profit, net of overheads</b>								
Other gains	<b>7,932</b>	-	-	-	-	-	-	-
Finance costs								
Investment revenue								
<b>Profit before tax</b>								
Income tax charge								
<b>Profit for the period</b>								
<b>Attributable to</b>								
Owners of the parent								
Non-controlling interests								

	Natural Gas		Oil					
			Single point mooring facility		Aviation Refuelling		Trading	
	30.06.11 (Unaudited)	31.12.10 (Audited)	30.06.11 (Unaudited)	31.12.10 (Audited)	30.06.11 (Unaudited)	31.12.10 (Audited)	30.06.11 (Unaudited)	31.12.10 (Audited)
Amount in £'000								
<b>Net assets: by class of business</b>								
Assets								
Segment assets	<b>157,510</b>	174,532	<b>21,199</b>	19,248	<b>32,941</b>	27,907	<b>74,974</b>	69,925
Unallocated assets								
Consolidated total assets								
Liabilities								
Segment liabilities	<b>(41,436)</b>	(42,673)	<b>(2,773)</b>	(2,089)	<b>(1,150)</b>	(36)	<b>(39,967)</b>	(20,323)
Unallocated liabilities ***								
Consolidated total liabilities								

	<b>Oil</b>							
	<b>Products</b>							
	<b>Terminal</b>		<b>Resources</b>		<b>Others**</b>		<b>Group</b>	
	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010	<b>2011</b>	2010
Amount in £'000	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
Revenue including share of jointly controlled entities	<b>1,113</b>	1,459	-	-	<b>3,999</b>	3,475	<b>300,097</b>	222,184
Share of revenue of jointly controlled entities	<b>(1,113)</b>	(1,459)	-	-	<b>(3,999)</b>	(3,475)	<b>(187,258)</b>	(137,411)
<b>Group revenue</b>	-	-	-	-	-	-	<b>112,839</b>	84,773
<b>Profit from operations (including share of results of jointly controlled entities)</b>	<b>419</b>	662	<b>(518)</b>	-	<b>196</b>	285	<b>13,041</b>	11,946
Office overheads *							<b>(1,197)</b>	(1,386)
<b>Operating profit, net of overheads</b>							<b>11,844</b>	10,560
Other gains	-	-	-	-	-	-	<b>7,932</b>	-
Finance costs							<b>(3,465)</b>	(1,342)
Investment revenue							<b>778</b>	313
<b>Profit before tax</b>							<b>17,089</b>	9,531
Income tax charge							<b>(3,184)</b>	(1,743)
<b>Profit for the period</b>							<b>13,905</b>	7,788
<b>Attributable to</b>								
Owners of the parent							<b>10,808</b>	4,480
Non-controlling interests							<b>3,097</b>	3,308

	Oil							
	Products		Resources		Others**		Group	
	Terminal							
Amount in £'000	30.06.11 (Unaudited)	31.12.10 (Audited)	30.06.11 (Unaudited)	31.12.10 (Audited)	30.06.11 (Unaudited)	31.12.10 (Audited)	30.06.11 (Unaudited)	31.12.10 (Audited)
<b>Net assets: by class of business</b>								
Assets								
Segment assets	6,164	1,700	25,792	-	(120)	(133)	318,460	293,179
Unallocated assets							328	275
Consolidated total assets							318,788	293,454
Liabilities								
Segment liabilities	-	-	(298)	-	-	-	(85,624)	(65,121)
Unallocated liabilities ***							(58,543)	(62,013)
Consolidated total liabilities							(144,167)	(127,134)
							174,621	166,320

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

\*\* Others include retail and distribution.

\*\*\* Includes bank loan, deferred tax and dividend withholding tax.

Non-current assets are mainly located in the PRC.

## b) Analysis of group revenue

Amount in £'000	6 months	6 months
	ended	ended
	30.06.11	30.06.10
	(Unaudited)	(Unaudited)
Sales of goods	108,588	80,821
Income from gas connection contracts	3,200	2,982
Rental income	476	596
Others	575	374
	<u>112,839</u>	<u>84,773</u>

#### 4. Income tax charge

Interim period income tax is accrued based on the average effective income tax rate of 18.6 per cent (6 months ended 30 June 2010: 18.3 per cent).

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

Please refer to the financial review for discussion on the increase in tax charges during the period.

#### 5. Dividends

Amount in £'000	6 months ended		Year ended
	30.06.11	30.06.10	31.12.10

Amounts recognised as distributions to equity holders in the period:

Final dividend for the year ended 31 December 2010 of 0.13p (2009: nil) per share

2,468      -

Proposed final dividend for the year ended 31 December 2010

2,468

2,468

The Directors do not recommend the payment of an interim dividend in respect of the 6 months ended 30 June 2011.

#### 6. Earnings per share

Earnings per share has been calculated by dividing earnings attributable to the shareholders by the weighted average number of shares in issue during the respective periods, as indicated below:

	30.06.11	30.06.11	30.06.10	30.06.10	31.12.10	31.12.10
	No.		No.		No.	
	'000	pence	'000	pence	'000	pence
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		
Basic	1,897,958	0.57	1,894,564	0.24	1,896,089	0.69
Share option adjustment	2,356		585		724	
Diluted	1,900,314	0.57	1,895,149	0.24	1,896,813	0.69

#### 7. Property, plant and equipment

During the period, the Group spent approximately £8.6 million on assets in the course of expansion of pipeline network construction and replacement of pipeline in single point mooring buoy facility.

The main decrease in property, plant and equipment is due to the deemed disposal of Fortune Liulin Gas Company Limited during the period (see note 14). The Group also disposed of certain parts of its single point mooring buoy and fixtures and fittings with a carrying amount of £2 million.

The depreciation charge for the period was £2.9 million (6 months ended 30 June 2010: £4.3 million).

## 8. Other intangible assets

During the period, the Group recognised £16 million on mining rights in respect of the acquisition of Bounty Resources Armenia Limited ("BRAL"). In addition, £1.5 million of distribution rights were recognised in respect of the acquisition of Liaoning Jianping Fortune Gas Company Limited ("Liaoning") (see note 13).

The depreciation charge for the period was £0.1 million (6 months ended 30 June 2010: £0.1 million).

## 9. Investments in jointly controlled entities

The Group has lost control over Fortune Liulin Gas Company Limited ("FLG") on 30 June 2011, and treated FLG as a jointly controlled entity thereafter (see note 14). The remaining movement was mainly represented by the share of profit and loan to the jointly controlled entities. There have been exchange losses of £1.6 million. Details as follows:

<b>Jointly controlled entities</b>	<b>Interest in jointly controlled entities</b>	<b>Net loans to jointly controlled entities</b>	<b>Total jointly controlled entities</b>
<b>Amount in £'000</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Share of net assets / cost</b>			
At 1 January 2011	39,066	8,651	47,717
Exchange rate difference	(1,236)	(345)	(1,581)
Advances	-	63	63
Investment in FLG	16,732	(828)	15,904
Dividend	(716)	-	(716)
Share of profit	7,195	-	7,195
<b>At 30 June 2011</b>	<b>61,041</b>	<b>7,541</b>	<b>68,582</b>

## 10. Goodwill

There was a deemed disposal of a subsidiary at amount of £1.0 million during the period (see note 14) and the remaining movement mainly represents the exchange loss.

## 11. Borrowings

The Group has entered into a new loan facility of £112 million (US\$180 million), of which £49.8 million (US\$80 million) had been drawn down by the Group by 30 June 2011. The loan is with a term of three years and a margin of 2.6 per cent above LIBOR. The loan is being used to refinance the previous loan facility, and for general working capital requirements of the Group.

## 12. Issued capital

Issued capital as at 30 June 2011 amounted to £19.9 million. There were no movements in the issued capital of the Company during the period.

## 13. Acquisition of subsidiaries

As at 30 June 2011, the Group is entitled to potential voting rights of up to 65% in Bounty Resources Armenia Limited, which, in aggregate, would have 51% effective shareholding in a company that holds an interest on three Armenian iron ore mines licences for an overall consideration of £26 million. (£16 million paid as at 30 June 2011 for a 33% effective interest and £10 million payable in respect to the option to increase its effective interest to 51%).

In March 2011, the Group acquired 51% of the issued share capital of Liaoning for cash consideration of £1 million. The consideration has not been paid at the balance sheet date.

Neither of these acquisitions meets 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 activities. As such, the transactions have been accounted for as an asset acquisition resulting in the recognition of identifiable intangible assets of £17.5 million.

#### 14. Disposal of interest in subsidiaries

The Group disposed of its interest in Beijing Fu Hua Dadi Gas Limited ("Dadi") during the period. The assets and liabilities attributable to Dadi were presented as held for sale as at 31 December 2010.

Further to the Subscription and Shareholders Agreement dated 18 December 2009, Dart Energy (previously Arrow Energy International) was able to exercise a series of options to increase its shareholding in Fortune Liulin Gas Company Limited (FLG). Given that on 30 June 2011, Dart Energy is able to exercise Option 1B to acquire a further 5% interest in FLG (increasing interest up to 50% in aggregate), the Group is deemed to have lost control over FLG and hence FLG is now considered to be a jointly controlled entity of the Group.

The net assets of Dadi and FLG at the date of disposal were as followed:

Amount in £'000	Beijing Fu Hua Dadi Gas Limited	Fortune Liulin Gas Company Limited	Total
Goodwill	-	979	979
Property, plant and equipment	9,451	19,191	28,642
Other intangible assets	1	3	4
Prepaid lease payment	55	-	55
Inventories	39	-	39
Trade receivables	467	-	467
Other receivables	67	44	111
Bank balance and cash	297	2,685	2,982
Trade payables	(599)	-	(599)
Other payables	(3,407)	(5,004)	(8,411)
Temporary receipt	(326)	-	(326)
Accruals	(111)	-	(111)
Taxation	(69)	-	(69)
Borrowings	(385)	-	(385)
Due from owners	-	828	828
	<u>5,480</u>	<u>18,726</u>	<u>24,206</u>
Exchange reserves	-	(402)	(402)
Non-controlling interests	<u>(2,182)</u>	<u>(8,607)</u>	<u>(10,789)</u>
	3,298	9,717	13,015
Exchange difference	(98)	56	(42)
Gain on disposal	<u>973</u>	<u>6,959</u>	<u>7,932</u>
	<u><u>4,173</u></u>	<u><u>16,732</u></u>	<u><u>20,905</u></u>

Total consideration	4,173	-	4,173
Fair value of residual interest (jointly controlled entity)	-	16,732	16,732
	<u>4,173</u>	<u>16,732</u>	<u>20,905</u>
Satisfied by:			
Cash and cash equivalent	3,339	-	3,339
Deferred consideration (to be received in cash in September 2011)	834	-	834
	<u>4,173</u>	<u>-</u>	<u>4,173</u>
Net cash inflow arising on disposal:			
Consideration received in cash and cash equivalents	3,339	-	3,339
Less: cash and cash equivalent disposed of	(297)	(2,685)	(2,982)
	<u>3,042</u>	<u>(2,685)</u>	<u>357</u>

On 30 June 2011, being the date that the group is deemed to have lost control of FLG, £3.4 million was transferred from other reserve to retained earnings. This represents the gain on previous partial disposals of FLG, which was originally recorded directly in other reserve as control was retained at that time.

## 15. Notes to the cash flow statement

Amount in £'000	6 months ended 30.06.11 (Unaudited)	6 months ended 30.06.10 (Unaudited)
<b>Net cash from operating activities</b>		
Profit for the period	13,905	7,788
Adjustments for:		
Share of post-tax results of jointly controlled entities	(7,195)	(4,684)
Taxation	3,184	1,743
Amortisation	137	191
Depreciation	2,915	4,289
Loss on disposal of property, plant and equipment	1,973	569
Loss on disposal of prepaid lease payment	-	4
Gain on disposal of subsidiary undertakings	(7,932)	-
Share-based payments	100	100
Investment revenue	(778)	(313)
Finance costs	3,465	1,342
(Increase)/decrease in inventories	(7,019)	736
Increase in trade and other receivables	(19,924)	(19,920)
Increase in trade and other payables	30,624	11,539
Net cash from operations	13,455	3,384
Interest paid	(2,113)	(1,342)
Taxation paid	(4,451)	(1,367)
<b>Net cash from operating activities</b>	<b>6,891</b>	<b>675</b>
<b>Cash and cash equivalents</b>		
Cash and bank balances	87,331	60,450

## 16. 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	30.06.11 (Unaudited)	30.06.10 (Unaudited)	31.12.10 (Audited)
Loans from equity non-controlling interests to subsidiaries	1	<b>(1,250)</b>	(3,207)	(1,364)
Loans to equity non-controlling interests to subsidiaries	1	<b>953</b>	688	3,574
Interest paid and payable to major shareholders	2	-	32	32
Trade account receivable from non-controlling shareholders	3	<b>4,001</b>	4,746	3,161
Shareholder loans to jointly controlled entities	4	<b>7,541</b>	7,908	8,651
Sales of goods to jointly controlled entities	5	<b>1,525</b>	1,316	2,832
Purchase of goods from Vitol Asia	5	<b>6,793</b>	-	9,692
Purchase of goods from jointly controlled entities	5	<b>698</b>	1,061	1,150
Current account with Vitol Energy	5	<b>(462)</b>	(469)	(456)
Current account with jointly controlled entity	5	<b>(55)</b>	(275)	(32)

### Sub Notes

1. The loans £1,250,000 (December 2010: £1,364,000) 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 are unsecured, interest free and without fixed payment terms. Loans of £953,000 (December 2010: £3,574,000) comprised mainly loans to the non-controlling shareholders of Beijing Everthiving Energy Technology Company Limited which loans are unsecured, interest free and without fixed payment terms.
2. The interest paid and payable to First Level Holdings Limited was £32,000 in 2010 all of which was paid at 31 December 2010.
3. Maoming Petrochemical Corporation (MPCC) is a corporate shareholder of the Group's subsidiary, Maoming King Ming Petroleum Company Limited. Throughputting turnover from MPCC amounted to £7,546,000. (June 2010: £ 7,190,000) of which £4,001,000 was owed at 30 June 2011 (December 2010: £3,161,000).
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. £7,541,000 (December 2010: £8,651,000) was due from Tianjin Tianhui Natural Gas Limited, Jining Qufu New Fu Hong Gas Limited and Beijing Fuhua Natural Gas Logistics Limited.
5. Vitol Energy (Bermuda) Limited is a shareholder of the Company. Purchases from Vitol Asia Pte Ltd amounted to £6,793,000 (June 2010: £nil) and purchases from jointly controlled entities - Shandong Green Energy Gas Company, the jointly controlled entity of HFGE, and Jining Qufu New Fu Hong Gas Limited amounted to £nil and £698,000 (June 2010: £435,000 and £626,000) 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 £1,525,000 (June 2010: £1,316,000).

Current account due to Vitol Energy (Bermuda) Limited amounted to £462,000 (December 2010: £456,000). Current account due to controlled entities, Jining Qufu New Fu Hong Gas Company Limited, amounted to £55,000 (December 2010: £32,000) respectively.

### 17. Approval of half year financial statements

The half year financial statements were approved by the board of directors on 25 August 2011.