



Fortune Oil PLC

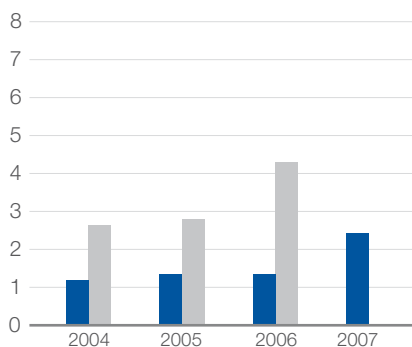
interim report 2007



chief executive's review

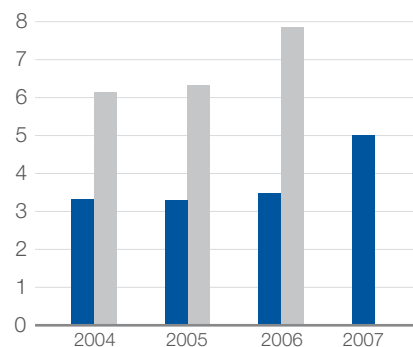
Fortune Oil performed very strongly in the first half of 2007 as earnings attributable to shareholders increased 80 per cent to £2.4 million.

Profit Attributable to Shareholders
£ million



■ 1-H ■ FY

Profit from Operations before
Exceptional Items
£ million



■ 1-H ■ FY

The most significant contribution was the recovery in Bluesky's operating margin although there was an increase in profit contribution from every other Group business. Fortune Oil continues to benefit from the strong growth of China and our unique positioning in the China oil and gas markets.

Results for the six months ending 30 June 2007:

- Revenues including the Group's share of jointly controlled entities increased to £115.0 million, up 26 per cent from the same period last year.
- Profit from operations increased by 44 per cent to £5.0 million.
- Retained profits attributable to equity shareholders rose to £2.4 million and earnings per share grew to 0.14 pence, an increase of 80 per cent over the same period in 2006.
- Volume at Bluesky increased by 11 per cent and the increased margin from the compensation mechanism resulted in a doubling of Bluesky's profit contribution compared to the first half of 2006.
- Volume sales of natural gas almost tripled to 105 million cubic metres and the profit contribution increased 53 per cent compared to the same period in 2006.
- The above record improvement was even higher in RMB terms, the primary currency of our operations, because of a 6 per cent strengthening of sterling against the RMB.

Operational Progress

This year we have made major strides in creating an independent integrated gas business. In July we acquired control of Henan Fortune Green Energy Development Company, a LNG (liquefied natural gas) and CNG (compressed natural gas) business originally developed

within Sinopec. We also recently announced a partnership with the Chinese government for the utilisation of gas from coal reserves throughout Shanxi Province. This will take advantage of the Group's expertise in distributing natural gas as CNG, LNG or piped gas and will complement our growing downstream gas operations.

At the Liulin block in Shanxi Province we now have two pilot wells in dewatering phase prior to producing CBM (coal bed methane) and have drilled further data wells to exploit the estimated 40 billion cubic metres of gas resource.

Our new investments have been funded through a US\$50 million loan facility signed in April with a syndicate of international banks in Hong Kong.

Outlook

Fortune Oil has become the first foreign company to produce and distribute both LNG and CNG in China. Our experience with CBM development and gas distribution in Shanxi Province has now enabled us to create a unique platform with the provincial and national governments to access further gas in the province and to expand our downstream network. China is putting increasing emphasis on the safe and efficient utilisation of gas from coal seams and we will be at the heart of this development. Combined with ongoing growth in our oil sector operations this promises an exciting and prosperous future for the Company and its shareholders.

Li Ching

Chief Executive

24 September 2007

CHINA REVIEW

Economic Growth

The PRC government continues to tighten monetary policy in order to curb the burgeoning demand growth and consequent inflation. The consumer price index rose by 6.5 per cent year-on-year to August 2007 and the central bank (the Peoples' Bank of China) has been steadily increasing interest rates in response to the 10-year record inflation rates. These moves reflect the central bank's confidence in China's strong growth prospects despite the recent problems in global markets as other central banks plan cuts in interest rates. This confidence has been shared by investors in China's stock markets, which have risen substantially as many of the domestic companies report strong earnings growth.

China's demand for crude oil grew by 7.7 per cent year on year for the first half of 2007 but most of this increase in demand was met by imports, according to the National Bureau of Statistics. For the past five years the government has gradually stepped up the domestic prices of transportation fuels as international prices have increased, although domestic prices have been generally kept below international levels. Despite these rising prices there is little noticeable impact on the rising domestic appetite for road and air travel.

Gas Market Developments

The natural gas market in China has been developing in the way previously anticipated by Fortune Oil. Supply of natural gas as a clean fuel in China continues to lag demand, particularly for residential and commercial customers. The PRC government has recognised the need to ensure adequate supplies as the gas market expands, initially through importing LNG by sea and then by importing piped gas from Russia and Turkmenistan. The negotiated LNG

price for the first LNG terminal in China, which started up in 2006 in Guangdong, was set at a historical low and plans for further terminals were delayed when international prices increased. However China has now rejoined the global gas markets as PetroChina recently agreed long term LNG supply contracts with Australian suppliers at international market prices, which are currently three times higher than that for Guangdong.

The NDRC (National Development and Reform Commission), the government body responsible for energy policy, has reiterated that prices for domestic gas will continue to increase and will eventually be linked to international prices. Domestic production of gas will be encouraged and priority will be given to utilisation of gas for residential, commercial and vehicular use, particularly in areas such as Shanxi province where coal will remain the primary source of power. These assumptions have underpinned Fortune Oil's strategy in developing an integrated gas distribution business, focusing particularly on Shanxi Province.

Coal Seam Gas

There is an increasing government focus on ensuring the safe and efficient production of coal, which will be the cheapest and dominant source of energy for China for the foreseeable future. Incentives have already been announced for coal mines to extract gas from coal seams prior to mining and we expect regulatory changes to reinforce these objectives. Few of these coal mine companies can mobilise the expertise for the required drilling operations, and even fewer are able to then efficiently utilise or distribute this gas to the local communities. Fortune Oil is well positioned in the CBM development and gas distribution industries to help China address this major social and environmental challenge.

OIL SECTOR OPERATIONS

South China Bluesky Aviation Oil Company

Bluesky's sales of jet fuel increased by 11 per cent to 777,000 tonnes in the first half of 2007 (2006: 700,000 tonnes). The major growth continues to be at the Guangzhou Baiyun International Airport, where there is ongoing expansion of the existing refuelling facilities in addition to construction of the new Federal Express hub. Both passenger and cargo traffic continue to grow significantly in China and, despite the high jet fuel prices, Bluesky's major customers such as China Southern Airlines have recently returned to profit and are making large orders for additional aircraft.

Net profit at Bluesky rose by 97 per cent to £6.5 million (RMB 98.7 million) compared to £3.3 million (RMB 46.6 million) for the same period last year. The temporary decline in operating margin in early 2006 had been due to disparities in price between domestic and international jet fuel. The PRC government instituted measures in mid-2006 obliging the airlines to compensate jet fuel suppliers for such disparities, which has since restored the operating margin.

Bluesky continues to invest in new infrastructure as many of the airports expand. For example, in order to meet the growth in passenger traffic, a new terminal has recently opened at Zhengzhou with new international routes, a new terminal is under construction at Wuhan, a new terminal is being designed for Changsha and relocation of the Shantou airport is currently at the planning stage. For each of these developments Bluesky needs to plan and invest in new facilities for jet fuel supply, storage and refuelling. More refining capacity is being constructed in southern China, particularly at Guangzhou and Hainan, which will help meet the incremental fuel demand.

Maoming Single Point Mooring

In the first six months of 2007 the Maoming SPM delivered crude oil from 24 tankers (2006: 23) with a total throughput of 4.8 million tonnes (2006: 5.3 million tonnes). Accrued demurrage charges totalling £0.6 million (RMB 9.5 million)

were written back such that the MKM joint venture's earnings rose to £3.0 million (RMB 45.0 million) for the period (2006: £2.7 million, RMB 38.9 million). The facility continues to operate efficiently with minimal expense required for maintenance of the buoy and subsea pipeline and MKM continues to have an accident-free and spill-free record.

Products Terminals and Supply

At the **West Zhuhai Terminal (South China Petroleum Company)** the throughput in the first half of 2007 was 1.0 million tonnes, similar to the previous period. The net profit contribution to Fortune Oil increased to £0.3 million (RMB 4.2 million) from £0.2 million (RMB 2.8 million) in the same period last year. This was principally due to the Company's shareholding increasing from 18.5 per cent to 37 per cent following the acquisition of Vitol's interests in 2006. In 2007 Fortune Oil also received the first ever dividend payment from the West Zhuhai joint venture, being £0.5 million (RMB 7.4 million) in respect of the 2006 results following repayment of the joint venture bank loan last year.

The major customer of the terminal continues to be PetroChina but 9 per cent of the storage revenue for the period came from a local independent petrochemical company. This is the first third party use of the terminal's oil products capacity since its construction ten years ago and reinforces our confidence in the terminal's future as an independent storage facility.

Operations at the **Zhanjiang Fu Duo LPG** joint venture continue to be contracted out to management. One subsidiary was sold in July 2007 and there still remains some value to the Company in the land rights.

The **Trading** business has continued to develop its operations in 2007, particularly in the cross-border supply of non-regulated oil products and petrochemicals. The trading business, including the Shantou terminal and Beijing retail stations, increased revenues to £32.2 million (RMB 490.9 million) (2006: £19.1 million, RMB 274.7 million) with a half year operating profit of £0.2 million (RMB 3.7 million).

NATURAL GAS

Fortune Gas

Sales of natural gas soared to 105 million cubic metres (m³) in the first half of 2007, a 171 per cent increase over the same period last year. This already represents 86 per cent of total sales in 2006 (122 million m³). Growth came from increased utilisation at existing operations, in particular sales of CNG at Tongzhou in Beijing and increased throughput in spur pipelines. Connection fees were also generated from 4,660 new customers who were connected to our city gas networks in the period.

As a consequence the total revenues from natural gas sales doubled to £10.4 million (RMB 157.8 million) (2006: £5.2 million, RMB 74.1 million). The earnings contribution increased by 53 per cent to £0.8 million (RMB 11.6 million) in the first half of 2007 (2006: £0.5 million, RMB 7.2 million).

The existing joint ventures continue to expand their operations. In particular the Tianjin Tianhui joint venture (Fortune Oil indirect interest of 40 per cent) will invest £1.7 million (RMB 26 million) in constructing two pipelines, fifty per cent of which will be financed from local banks. These will enable the joint venture to supply Tuanbo New City, a suburb of Tianjin with a current population of 150,000 and which has been selected as a major development area. In addition the two city gas joint ventures at Qufu in Shandong Province are now being connected by gas pipeline to the PetroChina gas network, which will ensure a more reliable supply of gas at a lower price. In locations such as Qufu new retail CNG stations are being developed as the local government encourages the growth in natural gas powered vehicles.

In early 2007 Fortune Oil obtained approvals to establish a China-registered holding company, Fortune Gas Investment Company Limited, which will help develop and manage an integrated gas business in a tax-efficient manner. The natural gas subsidiaries are gradually being injected into this holding company, which is now also being used as a primary acquisition vehicle, for example in relation to Green Energy.

Green Energy LNG/CNG

In June 2007 Fortune Oil announced the acquisition of a 51 per cent controlling interest in Henan Fortune Green Energy Development Company ("Green Energy") which operates an LNG manufacturing plant, CNG retail stations and a fleet of LNG/CNG road tankers. Green Energy was previously owned by Sinopec and it was the first company in China to produce and sell LNG. Fortune Oil provided £4.7 million (RMB 71.4 million) in new equity and a loan of £4.9 million (RMB 74.3 million) to Green Energy in exchange for a controlling interest. Payment was made in July after drawdown from the Company's loan facility. The remaining 49 per cent interest in Green Energy is held by the employees, who have significant expertise in LNG and CNG technology.

The supply of gas to Green Energy's LNG plant and CNG stations is guaranteed by Sinopec from its Zhongyuan gas field. The agreement with Sinopec includes an evergreen minimum volume of 130 million m³ per year from 2009, which is a small fraction (eight per cent) of the field's current production. Following Fortune Oil's investment in Green Energy new compressors have now been installed to raise the throughput of the LNG plant to its design capacity of 55 million m³ per year. The guarantee from Sinopec provides opportunities for Green Energy to increase gas sales through investment in new LNG facilities and CNG stations.

This acquisition is a major step forward for Fortune Oil in creating an integrated gas company as LNG and CNG road tankers are now vital means of transporting natural gas in China. Green Energy substantially increases the Company's gas supply and sales network and also brings the ability for Fortune Oil to design, construct and operate LNG production facilities in the future. This will be a key strategic strength for Fortune Oil as we exploit opportunities to produce and utilise gas such as coal bed methane from isolated locations.

Shanxi CBM Distribution

Fortune Oil recently announced an investment to secure a 50 per cent interest in China United Shanxi CBM Company Limited (Shanxi CBM) for the utilisation of CBM throughout Shanxi Province. Our partners in this joint venture are 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. This is the first time that a foreign company has partnered the Chinese government in such a CBM distribution venture.

The Shanxi CBM joint venture will be a major platform for Fortune Oil to collect and market coal seam gas in Shanxi Province through the acquisition and development of gas infrastructure in this gas-rich region. Investment by Fortune Oil in this platform, initially at RMB 21 million (£1.4 million) for construction of new retail CNG stations, will increase as the joint venture provides greater access to gas and downstream opportunities.

COAL BED METHANE DEVELOPMENT

Significant progress has been made at the Liulin CBM block in Shanxi Province, where Fortune Oil has a 60 per cent controlling interest in Fortune Liulin Gas Company (FLG), the foreign party in a production sharing contract with CUCBM. In January 2007 FLG partnered with a Shanxi government laboratory to assess the gas resource at Liulin, now estimated to be 40.5 billion cubic metres. In April 2007 FLG commenced the testing of two vertical pilot wells (FL-EP1 and FL-EP2), which are still in the dewatering phase. New pumps will soon be installed to speed up the dewatering process and Fortune Oil is confident of producing gas from the pilot wells.

FLG has recently completed drilling and coring from two datawells and is now spudding two more pilot production wells. The exploration strategy is to obtain sufficient production and geology datapoints so that FLG can meet the government requirements on reserves certification prior to submission of an overall development plan in 2008. Fortune Oil expects to extend the current exploration period of the Liulin block to beyond April 2008 in order to explore other sectors of the block.

Expenditure by Fortune Oil in respect of FLG totalled £0.5 million (RMB 8.2 million) to 30 June 2007 plus accrued commitments of £0.8 million (RMB 11.9 million). This satisfies Fortune Oil's US\$2.5 million expenditure obligation in acquiring a 60 per cent interest in the FLG joint venture with Molopo. Most of the exploration costs will be recoverable in the production period under the production sharing contract.

The CBM industry in China is at an early stage of development and no production sharing contract is yet at the production stage with commercial gas sales. However, there is increasing government pressure to develop this industry, given the vast resources of coal seam gas in China, and the regulations for coal bed methane and coal mine methane will also develop further. The Liulin block is regarded by CUCBM as one of China's top-ranked CBM blocks and is situated in the middle of the gas-rich Hedong plateau. Fortune Oil's experience in exploring this block has enabled the Company to forge close links with the key CBM and gas distribution companies in Shanxi Province. As a result Fortune Oil was invited by the Chinese government to invest in the Shanxi CBM distribution business and to become one of only two foreign founding members of the Coal Bed Methane Industry Association of Shanxi Province.

SOCIAL RESPONSIBILITY

The Group continues to develop and implement policies for enhancing the health and safety of our employees and our impact on local communities and the environment. As China's economy develops there is increasing importance placed on enhancing standards by both government and consumers. As a result the nation continues to upgrade regulations relating for example to employment and the environment. China is finding its own path in attaining sustainable economic growth, modernising while not necessarily westernising.

Investment in road infrastructure has been a critical factor in allowing China's economic growth to exceed that of other emerging nations and this has also been a crucial factor in enabling the Company to source and distribute natural gas. However road safety remains a major issue in China and steps are being taken to train Group employees so as to reduce the number of road accidents. As part of the Company's ongoing environmental programme vapour recovery systems are now being installed in the gasoline retail stations so as to reduce emissions while filling the storage tanks.

FINANCIAL REVIEW

Financial Results

Group revenues (including share of jointly controlled entities) increased by 26 per cent to £115.0 million in the first half of 2007 (restated 2006: £91.2 million), primarily due to a £13 million revenue increase in the Company's trading business and higher sales in Bluesky and Fortune Gas. The Group profit from operations was £5.0 million, an increase of 44 per cent above the previous period (2006: £3.5 million).

The profit attributable to equity shareholders increased by 80 per cent to £2.4 million (2006: £1.4 million), a record first half performance for Fortune Oil. The earnings per share were 0.14 pence and there was no change in issued share capital during the period.

Net assets of the Group increased to £54.4 million (2006: £50.1 million). The principal capital expenditure for the period was £1.8 million investment in CBM assets (including the transfer of assets from Molopo into FLG following the finalisation in April of agreements with CUCBM) and £1.0 million investment in CNG distribution and pipeline assets. The cash balance of £18.3 million at 30 June 2007 included funds earmarked for investment in Green Energy. Accounts receivables increased to £11.1 million (2006: £5.6 million) principally because of payments due from Sinopec to the MKM joint venture. These receivables and corresponding accounts payable by MKM are now in the process of being settled.

While the most significant contributions to growth in earnings were from the Bluesky and Fortune Gas operations, almost every Group company increased profitability via higher volume sales. The long-established Bluesky and Maoming SPM joint ventures still provide the majority of the Group's profit but the contribution from the natural gas operations has now increased to 15 per cent of Group operating profit.

Operating margins for each company depend on the characteristics of their business. For example typically the margins for a tolling operation such as the Maoming SPM would be higher than those for a trading business, the margins for CNG sales would be higher than those for a gas pipeline tariff. Therefore the overall margin will change as the revenue mix changes. Fortune Oil management track net profit and overall development strategy rather than overall margin in guiding the business growth.

All of the Group's operating income and most of the expenses are denominated in renminbi (RMB). The RMB continues to strengthen against the US dollar as the currency peg is loosened and the RMB/US\$ exchange rate decreased 5 per cent to 7.6 over the 12 months to June 2007. However this has been offset by the strengthening of the pound sterling such that the profit and loss results are 6 per cent higher if reported in RMB.

Financing and Tax

In April 2007 the Company signed a dual currency (US dollar/Hong Kong dollar) US\$50 million loan facility with 18 international and regional banks. The facility has a tenor of three years with a margin of 1.1 per cent above LIBOR or HIBOR. The first drawdown was in June 2007 such that net interest payments in the first half of 2007 were similar to the same period in 2006 at £0.2 million, and the Group maintained a zero net gearing at the end of June 2007. Full drawdown is expected by the end of the availability period in October 2007 and the proceeds are being utilised for investments in new projects.

Trade finance facilities totalling US\$100 million have also been signed with Commerzbank, DBS, Standard Chartered and UOB in support of anticipated growth in the cross-border supply business.

Under the unified PRC income tax law effective from January 2008, the standard tax rate for all companies will be 25 per cent, but with a four year grandfather provision for companies currently taxed at a lower rate such as Fortune Oil's gas joint ventures. The PRC authorities have also announced that CBM, gas processing and distribution businesses will qualify as "state-encouraged" and therefore incur a lower tax rate of 15 per cent. Therefore we expect the new tax laws to have a minimal impact on the Company's profit going forward.

interim results

group income statement

| Amount in £'000 | 6 months ended 30.06.07 (Unaudited) | (restated) 6 months ended 30.06.06 (Unaudited) | 12 months ended 31.12.06 (Audited) |
|--|--|--|---|
| Revenue including share of jointly controlled entities | 115,015 | 91,178 | 175,771 |
| Share of revenue of jointly controlled entities | (69,026) | (61,473) | (132,500) |
| Group revenue | 45,989 | 29,705 | 43,271 |
| Cost of sales | (40,624) | (25,041) | (33,912) |
| Gross profit | 5,365 | 4,664 | 9,359 |
| Exceptional gains | – | – | 2,551 |
| Exceptional charges | – | – | (834) |
| Administrative expenses | (2,351) | (2,188) | (4,444) |
| Share of results of jointly controlled entities | 1,993 | 1,010 | 2,942 |
| Profit from operations | 5,007 | 3,486 | 9,574 |
| Finance costs | (301) | (236) | (471) |
| Investment income | 50 | 79 | 168 |
| Profit before taxation | 4,756 | 3,329 | 9,271 |
| Taxation | (338) | (290) | (617) |
| Profit for the period/year | 4,418 | 3,039 | 8,654 |
| Attributable to | | | |
| Equity shareholders | 2,438 | 1,355 | 4,307 |
| Minority interests | 1,980 | 1,684 | 4,347 |
| | 4,418 | 3,039 | 8,654 |
| Earnings per share | | | |
| Basic | 0.14p | 0.08p | 0.24p |
| Diluted | 0.14p | 0.08p | 0.24p |

interim results

group statement of changes in equity

| Amount in £'000 | Ordinary shares | Treasury shares | Share premium account | Translation reserves | Retained earnings | Total shareholders' equity | Minority interests | Total equity |
|---|-----------------|-----------------|-----------------------|----------------------|-------------------|----------------------------|--------------------|---------------|
| Balance at 1 January 2006 | 18,351 | (760) | 37,344 | 2,062 | (17,985) | 39,012 | 11,726 | 50,738 |
| Issue of ordinary shares | 10 | – | 9 | – | – | 19 | – | 19 |
| Movement in treasury shares | – | (15) | – | – | – | (15) | – | (15) |
| Currency translation differences | | | | | | | | |
| – Group | – | – | – | (1,412) | – | (1,412) | (933) | (2,345) |
| – Jointly controlled entities | – | – | – | (1,340) | – | (1,340) | – | (1,340) |
| Profit for the period | – | – | – | – | 1,355 | 1,355 | 1,684 | 3,039 |
| Balance at 30 June 2006 | 18,361 | (775) | 37,353 | (690) | (16,630) | 37,619 | 12,477 | 50,096 |
| Balance at 1 January 2007 | 18,363 | (795) | 22 | (2,717) | 23,805 | 38,678 | 11,288 | 49,966 |
| Movement in treasury shares | – | 201 | – | – | (201) | – | – | – |
| Capital contribution from minority shareholders | – | – | – | – | – | – | 828 | 828 |
| Currency translation differences | | | | | | | | |
| – Group | – | – | – | (148) | – | (148) | (221) | (369) |
| – Jointly controlled entities | – | – | – | (526) | – | (526) | – | (526) |
| Profit for the period | – | – | – | – | 2,438 | 2,438 | 1,980 | 4,418 |
| Share-based payments | – | – | – | – | 70 | 70 | – | 70 |
| Dividend paid | – | – | – | – | – | – | 6 | 6 |
| Balance at 30 June 2007 | 18,363 | (594) | 22 | (3,391) | 26,112 | 40,512 | 13,881 | 54,393 |

interim results

group balance sheet

| Amount in £'000 | 6 months ended 30.06.07 (Unaudited) | 6 months ended 30.06.06 (Unaudited) | 12 months ended 31.12.06 (Audited) |
|--|--|--|---|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 24,028 | 24,524 | 24,539 |
| Investment properties | 1,540 | 1,679 | 1,577 |
| Goodwill | 920 | 1,002 | 943 |
| Other intangible assets | 2,722 | 834 | 992 |
| Investments in jointly controlled entities | 22,083 | 19,025 | 21,083 |
| Other investment | 99 | 109 | 101 |
| | 51,392 | 47,173 | 49,235 |
| Current assets | | | |
| Inventories | 849 | 2,411 | 1,070 |
| Trade and other receivables | 11,141 | 5,583 | 6,249 |
| Cash and cash equivalents | 18,344 | 13,135 | 8,202 |
| | 30,334 | 21,129 | 15,521 |
| Total assets | 81,726 | 68,302 | 64,756 |
| Liabilities | | | |
| Current liabilities | | | |
| Borrowings | 2,540 | 2,168 | 3,427 |
| Trade and other payables | 7,619 | 9,257 | 5,362 |
| Current tax liabilities | 226 | 186 | 170 |
| | 10,385 | 11,611 | 8,959 |
| Non-current liabilities | | | |
| Borrowings | 16,683 | 6,288 | 5,567 |
| Deferred tax liabilities | 265 | 307 | 264 |
| | 16,948 | 6,595 | 5,831 |
| Total liabilities | 27,333 | 18,206 | 14,790 |
| Net assets | 54,393 | 50,096 | 49,966 |
| Shareholders' equity | | | |
| Ordinary shares | 18,363 | 18,361 | 18,363 |
| Treasury shares | (594) | (775) | (795) |
| Share premium account | 22 | 37,353 | 22 |
| Translation reserves | (3,391) | (690) | (2,717) |
| Retained earnings | 26,112 | (16,630) | 23,805 |
| Total shareholders' equity | 40,512 | 37,619 | 38,678 |
| Minority interests | 13,881 | 12,477 | 11,288 |
| Total equity | 54,393 | 50,096 | 49,966 |

interim results

group cash flow statement

| Amount in £'000 | 6 months ended 30.06.07 (Unaudited) | (restated) 6 months ended 30.06.06 (Unaudited) | 12 months ended 31.12.06 (Audited) |
|--|--|--|---|
| Cash flows from operating activities | | | |
| Profit for the period/year | 4,418 | 3,039 | 8,654 |
| Adjustments for: | | | |
| Share of post-tax results of jointly controlled entities | (1,993) | (1,010) | (2,942) |
| Taxation | 338 | 290 | 617 |
| Amortisation and depreciation | 1,307 | 1,232 | 2,508 |
| Impairment | – | 58 | 834 |
| Loss on disposal of property, plant and equipment | 3 | – | 35 |
| Profit on disposal of subsidiary undertakings | – | – | (188) |
| Share-based payments | 70 | – | 139 |
| Investment income | (50) | (79) | (168) |
| Finance costs | 301 | 236 | 471 |
| Decrease/(increase) in inventory | 53 | (405) | 842 |
| (Increase)/decrease in trade and other receivables | (4,880) | 70 | (706) |
| Increase/(decrease) in trade and other payables | 2,245 | (95) | (3,428) |
| Cash flows generated from operations | 1,812 | 3,336 | 6,668 |
| Finance costs | (301) | (236) | (471) |
| Taxation paid | (278) | (329) | (665) |
| Net cash flows from operating activities | 1,233 | 2,771 | 5,532 |
| Cash flows from investing activities | | | |
| Investment income | 50 | 79 | 168 |
| Dividend received from jointly controlled entities | 494 | 47 | 2,463 |
| Payments for property, plant and equipment | (985) | (678) | (4,708) |
| Payments for other intangible assets | (1,769) | – | (223) |
| Receipt from disposal of subsidiary undertakings | – | – | 305 |
| Receipt from disposal of property, plant and equipment | – | – | 66 |
| Investment in jointly controlled entities | – | – | (3,072) |
| Repayment from jointly controlled entities | (28) | 8 | – |
| Loan to jointly controlled entities | – | – | (335) |
| Total cash flows used in investing activities | (2,238) | (544) | (5,336) |
| Cash flows from financing activities | | | |
| Proceeds from issue of share capital | – | 4 | 34 |
| Loan from minority shareholders | 159 | 68 | 429 |
| Repayment of loans to minority shareholders | – | – | (441) |
| Dividend paid to minority shareholders | – | – | (3,265) |
| Capital contribution from minority shareholders | 828 | – | – |
| Repayment of loans | – | – | (689) |
| Increase in loans | 10,144 | (90) | 1,663 |
| Total cash flows from/(used in) financing activities | 11,131 | (18) | (2,269) |
| Net increase/(decrease) in cash and cash equivalents | 10,126 | 2,209 | (2,073) |
| Cash and cash equivalents at beginning of the period/year | 8,202 | 11,713 | 11,713 |
| Effect of foreign exchange rate changes | 16 | (787) | (1,438) |
| Cash and cash equivalents at end of the period/year | 18,344 | 13,135 | 8,202 |

1. Basis of preparation and accounting policies

The interim financial statements for the six months to 30 June 2007 have been prepared on the basis of the accounting policies set out in the Company's financial statements for the year ended 31 December 2006. These accounting policies are drawn up in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. These interim financial statements have been prepared in accordance with IAS 34 "Interim financial reporting".

The financial information for the six months ended 30 June 2007 and 30 June 2006 was neither audited nor reviewed by the auditors and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for the year to 31 December 2006 has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

2. Segmental Analysis

a) Business segments

| Amount in £'000 | Single point mooring facility | | Aviation | | Natural Gas | | Oil trading & storage* | | Others** | | Central administration | | Group | |
|---|-------------------------------|--------------|--------------|------------|--------------|--------------|------------------------|--------------------|------------|-----------|------------------------|--------------|---------------|--------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | (restated) 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | (restated) 2006 |
| Revenue including share of jointly controlled entities | 6,036 | 5,778 | 64,171 | 59,028 | 10,368 | 5,164 | 32,245 | 19,147 | 2,195 | 2,061 | - | - | 115,015 | 91,178 |
| Share of revenue of jointly controlled entities | - | - | (64,171) | (59,028) | (1,923) | - | (737) | (408) | (2,195) | (2,037) | - | - | (69,026) | (61,473) |
| Group revenue | 6,036 | 5,778 | - | - | 8,445 | 5,164 | 31,508 | 18,739 | - | 24 | - | - | 45,989 | 29,705 |
| Profit from operations (including share of results of jointly controlled entities) | 3,173 | 2,863 | 1,572 | 797 | 764 | 500 | (230) | (315) | 113 | 46 | (385) | (405) | 5,007 | 3,486 |
| Finance costs | | | | | | | | | | | | | (301) | (236) |
| Investment income | | | | | | | | | | | | | 50 | 79 |
| Profit before taxation | | | | | | | | | | | | | 4,756 | 3,329 |
| Taxation | | | | | | | | | | | | | (338) | (290) |
| Profit for the period | | | | | | | | | | | | | 4,418 | 3,039 |
| Attributable to | | | | | | | | | | | | | | |
| Equity shareholders | | | | | | | | | | | | | 2,438 | 1,355 |
| Minority interests | | | | | | | | | | | | | 1,980 | 1,684 |

* Includes overheads in Hong Kong/PRC offices.

The comparatives for the six months period ending 30 June 2006 have been restated to reflect the sub-contracting out of operations in certain subsidiary companies within the "Oil trading and storage" business segment. The impact of this change has been to reduce revenue by £3.7 million. This adjustment has no impact on previously reported profits or net assets.

** Others include distribution and CBM unit.

b) Geographical operations

With the exception of operating loss of £343,000 (2006: £345,000) in respect of central administration 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.

2. Segmental Analysis *continued*

c) Analysis of group revenue

| Amount in £'000 | 6 months ended 30.06.07 (Unaudited) | (restated) 6 months ended 30.06.06 (Unaudited) |
|------------------------------------|--|--|
| Sales of goods | 44,308 | 28,618 |
| Income from construction contracts | 986 | 802 |
| Rental income | 555 | 246 |
| Others | 140 | 39 |
| | 45,989 | 29,705 |

3. Dividends were not paid in any of the periods reported upon and no dividend is proposed.

4. Earnings per share have 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:

| | 30.06.07 No. '000 | 30.06.07 pence | 30.06.06 No. '000 | 30.06.06 pence | 31.12.06 No. '000 | 31.12.06 pence |
|-------------------------|-------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|
| Basic | 1,776,967 | 0.14 | 1,775,612 | 0.08 | 1,775,985 | 0.24 |
| Share option adjustment | 8,000 | – | 6,732 | – | 6,281 | – |
| Diluted | 1,784,967 | 0.14 | 1,782,344 | 0.08 | 1,782,266 | 0.24 |

5. At the 2007 Annual General Meeting a resolution was passed to amend the Company's Articles of Association to take advantage of the provisions in the Companies Act 2006 in relation to electronic communications. The provisions enable website publication of information for shareholders. Documents such as Interim Reports, Notices of general meetings and the Annual Report and Accounts, will be supplied via the Company's website (www.fortune-oil.com) to shareholders who have not requested a hard copy of these documents. Unless shareholders have previously elected to receive hard copy documents, website communication will become the default option and they will no longer receive information in paper form.

The use of website publication enables faster receipt of documents, reduces the Company's printing, paper and postage costs and has a positive impact on the environment.

company information

Directors

QIAN Benyuan
Chairman (Non-executive)

Daniel Tatjung CHIU
Executive Vice-Chairman

LI Ching (Ms)
Chief Executive

John PEXTON
Deputy Chief Executive

GONG Min
Projects Director

Trevor BEDFORD MBE
Senior Independent Director

WANG Jinjun
Dennis CHIU
Louisa HO (Ms)
LI Anxi
Ian TAYLOR
ZHI Yulin
Non-executive Directors

Company Secretary

Sandi CHOI (Ms)

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9/F Nine Queen's Road, Central
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1. Auditors

RSM Robson Rhodes LLP merged its audit practice with that of Grant Thornton with effect from 2 July 2007 with the successor firm being Grant Thornton.

2. Share price information

The current share price of Fortune Oil PLC is available on the interactive FT Cityline service on 0906 003 0000. At the menu following the FTSE 100 index, select option 2 for share prices and enter the four digit code 5296. Calls are charged at 60p per minute at all times.

3. Unsolicited mail

Fortune Oil PLC is obliged by law to make its share register available on request to other organisations who may then use it as a mailing list. This may result in you receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail, you may do so by writing to the Mailing Preference Service, an independent organisation whose services are free to you.

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