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福山國際能源集團有限公司

FUSHAN INTERNATIONAL ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance)

(Stock Code: 639)

CONTINUING CONNECTED TRANSACTION

Financial adviser to the Company



博大資本國際有限公司

Partners Capital International Limited

The Board announces that on 24 December 2007, the Purchaser, a non-wholly owned subsidiary of the Company, and the Supplier entered into the Coal Supply Contract, pursuant to which the Purchaser agrees to purchase and the Supplier agrees to supply up to 323,085 tonnes, 430,780 tonnes and 430,780 tonnes of coking coal for the financial year of 2008, 2009 and 2010 respectively from the Supplier for a term commencing from the effective date of the Coal Supply Contract up to 31 December 2010.

The Supplier is currently owned as to approximately 62.20% effective interest by Mr. Xing and his family and as to approximately 6.58% effective interest by Mr. Wong, the executive Director and Chairman of the Company and as to approximately 31.22% effective interest by other Independent Third Parties. Mr. Xing is a substantial shareholder of Luenshan which is a non-wholly owned subsidiary of the Company. Based on Mr. Xing's indirect shareholding in the Supplier, the Supplier is an associate (as defined in the Listing Rules) of Mr. Xing and is also a connected person (as defined in the Listing Rules) of the Company. In addition, as the aggregate annual cap of these continuing connected transactions exceeds 2.5% of the applicable percentage ratios, the Transaction therefore constitutes a continuing connected transaction of the Company under the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM with vote to be taken on a poll.

Mr. Wong and his associates (the controlling Shareholder interested in 1,239,950,000 Shares, representing approximately 51.19% of the issued share capital of the Company as at the date of this announcement) will be required to abstain from voting at the SGM. The Company will establish an independent board committee to advise the Independent Shareholders on the terms of the Coal Supply Contract and voting in respect of the Transaction. An independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Transaction, the recommendation from the independent board committee, the advice of the independent financial adviser and a notice to convene the SGM, will be despatched to the Shareholders as soon as practicable.

THE COAL SUPPLY CONTRACT DATED 24 DECEMBER 2007

Parties

- Purchaser : 山西曜鑫煤焦有限公司 (Shanxi Yao Zin Coal and Coking Company Limited), a sino-foreign equity joint venture was established under the laws of the PRC
- Supplier : 山西柳林興無煤礦有限責任公司 (Shanxi Liulin Xingwu Coalmine Company Limited), a company incorporated in PRC, which is engaged in exploitation of coking coal and production of clean coking coal. and is currently owned as to approximately 62.20% effective interest by Mr. Xing and his family and as to approximately 6.58% effective interest by Mr. Wong, the executive Director and Chairman of the Company and as to approximately 31.22% effective interest by other Independent Third Parties

Backgrounds

The coke plant of the Purchaser has two production lines with maximum capacity of 500,000 tonnes of coke each per annum. It is expected that 1.4359 tonnes of raw materials will produce 1 tonne of coke and 30% of 1.4359 tonnes of raw materials shall be coking coal to be supplied by the Supplier. As the construction of the coke plant of the Purchaser is scheduled to be completed by the end of 2007 and the production lines will commence trial production in the first half of 2008 and the operation will commence thereafter, it is expected that the maximum production of the coke for 2008 will be 750,000 tonnes of coke. Thereafter, the maximum production capacity for the coke plant of the Purchaser will be 1,000,000 tonnes and 1,000,000 tonnes of coke for the financial year of 2009 and 2010 respectively.

Terms

The Purchaser agrees to purchase and the Supplier agrees to supply up to 323,085 tonnes, 430,780 tonnes and 430,780 tonnes of coking coal for the financial year of 2008, 2009 and 2010 respectively for a term commencing from the effective date of the Coal Supply Contract (which is expected to be the date when the Independent Shareholders' approval is obtained) up to 31 December 2010.

The quantity and specification of coking coal to be supplied by the Supplier to the Purchaser will be subject to individual order placed by the Purchaser from time to time. The unit price of coking coal payable by the Purchaser to Supplier will be no less favourable than the unit price offered to the Purchaser by independent suppliers for the same type of coking coal. 90% of the amount payable by the Purchaser to the Supplier shall be settled in cash within 60 days upon receipt of the coking coal purchased and the remaining 10% shall be settled in cash within 30 days upon the issue of the quality control invoice.

The Purchaser also agrees to pay RMB30,000,000 (approximately HK\$31,839,000) to the Supplier as a prepayment within 10 days after the effective date of the Coal Supply Contract. The Purchaser can apply the prepayment as the amount payable to the Supplier from three months before the expiry date of the Coal Supply Contract and the Supplier shall repay any remaining balance of the prepayment to the Purchaser by 10 January 2011. As the prepayment was placed for the purpose of securing the continuing orders of coking coal and it is the usual practice to apply the prepayment as the amount payable to the Supplier, the Directors consider that it is normal commercial term to place the prepayment under the Coal Supply Contract.

Annual cap

The Company estimates that the annual cap amount of coking coal to be purchased under the Coal Supply Contract will be RMB252,007,000 (approximately HK\$267,452,000), RMB362,889,000 (approximately HK\$385,130,000) and RMB391,921,000 (approximately HK\$415,942,000) for the financial year ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively. Such estimates are determined with reference to the existing unit price of coking coal offered to the Group by independent suppliers, the expected year-on-year increase in the unit price of coking coal and the quantity of coking coal to be supplied under the Coal Supply Contract.

Conditions of the Coal Supply Contract

The Coal Supply Contract is conditional on the requirement as stipulated in the Listing Rules having been complied with by the Company relating to the Transaction (including, but not limited to, obtaining approval by the Independent Shareholders at the SGM). In the event that the above condition precedent is not fulfilled by three months from the date of the Coal Supply Contract (i.e. 24 March 2008), the Coal Supply Contract shall lapse.

REASONS FOR THE TRANSACTION

The Company is an investment holding company and the Group is principally engaged in the production and sales of coking coal products and side products.

In August 2007, the Purchaser increased its registered capital from RMB80,000,000 to RMB320,000,000, of which RMB170,400,000 was contributed by the Group. Upon completion of the increase in registered capital, the equity interest of the Group in the Purchaser was increased from 51% to 66%. As the construction of the coke plant of the Purchaser is scheduled to be completed by the end of 2007 and trial production is expected to begin in the 1st half of 2008 and the operation will commence thereafter, the Group can ensure a stable and reliable supply of coking coal required for the production of coke in the coke plant of the Purchaser by entering into the Coal Supply Contract. The Group will also benefit from a lower transaction cost for the supply of coking coal as the Supplier has its own coal mines within the area of the coke plant of the Purchaser.

Given the growth potential of the coking industry in the PRC and the future earnings potential of the Purchaser upon the commencement of the operations of the new coke plant of the Purchaser, the Board (including the independent non-executive Directors) considers that the Transaction is entered into on normal commercial terms and in the ordinary and usual course of business of the Group. The independent non-executive Directors will give recommendations to the Independent Shareholders on the merits of the continuing connected transactions upon receiving the advice from the independent financial adviser.

GENERAL

The Supplier is currently owned as to approximately 62.20% effective interest by Mr. Xing and his family and as to approximately 6.58% effective interest by Mr. Wong, the executive Director and Chairman of the Company and as to approximately 31.22% effective interest by other Independent Third Parties. Mr. Xing is a substantial shareholder of Luenshan which is a non-wholly owned subsidiary of the Company. Based on Mr. Xing's indirect shareholding in the Supplier, the Supplier is an associate (as defined in the Listing Rules) of Mr. Xing and is also a connected person (as defined in the Listing Rules) of the Company. In addition, as the aggregate annual cap of these continuing connected transactions exceeds 2.5% of the applicable percentage ratios, the Transaction therefore constitutes a continuing connected transaction of the Company under the Listing Rules and is subject to the approval of the Independent Shareholders at the SGM with vote to be taken on a poll.

Mr. Wong and his associates (the controlling Shareholder interested in 1,239,950,000 Shares, representing approximately 51.19% of the issued share capital of the Company as at the date of this announcement) will be required to abstain from voting at the SGM. The Company will establish an independent board committee to advise the Independent Shareholders on the terms of the Coal Supply Contract and voting in respect of the Transaction. An independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders in this regard.

A circular containing, among other things, details of the Transaction, the recommendation from the independent board committee, the advice of the independent financial adviser and a notice to convene the SGM, will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

“Board”	the board of Directors
“Coal Supply Contract”	the coal supply agreement entered into between the Purchaser and the Supplier dated 24 December 2007 in relation to the supply of coking coal to the Purchaser by the Supplier
“Company”	Fushan International Energy Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Mr. Wong and his associates
“Independent Third Parties”	are third parties independent of the Company and its connected persons (as defined in the Listing Rules)
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Luenshan”	柳林縣聯山煤化有限公司 (Liulin Luenshan Coking Co., Ltd), a company established under the laws of the PRC and a non-wholly owned subsidiary of the Company
“Mr. Wong”	Mr. Wong Lik Ping, the executive Director and Chairman of the Company
“Mr. Xing”	Mr. Xing Li Bin
“PRC”	The People’s Republic of China, for the purpose of this announcement only, excludes Hong Kong, Taiwan and Macau Special Administrative Region
“Purchaser”	山西曜鑫煤焦有限公司 (Shanxi Yao Zin Coal and Coking Company Limited), a sino-foreign equity joint venture was established under the laws of the PRC
“SGM”	the special general meeting of the Company to be convened for approving the Coal Supply Contract and the transactions contemplated therein
“Shareholders”	holders of shares in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Supplier”	山西柳林興無煤礦有限責任公司 (Shanxi Liulin Xingwu Coalmine Company Limited), a company incorporated in PRC
“Transaction”	the entering into the Coal Supply Contract
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For the purpose of this announcement, all amounts in RMB are translated into HK\$ at an exchange rate of RMB1: HK\$0.94225.

By order of the Board
SO KWOK HOO
Executive Director

Hong Kong, 31 December 2007

As at the date of this announcement, the Board comprises Mr. Wong Lik Ping, Mr. So Kwok Hoo, Mr. Li King Luk as executive Directors, Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam as independent non-executive Directors.