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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Fushan International Energy Group Limited (the "Company"), you should at once hand this circular accompanying with the form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

DISCLOSEABLE AND CONNECTED TRANSACTION

Financial adviser to the Company



博 大 資 本 國 際 有 限 公 司

Partners Capital International Limited

Independent financial adviser

VEDA | CAPITAL

智 略 資 本

A letter from the independent board committee of the Company is set out on page 12 of this circular. A letter from Veda Capital Limited containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 13 to 24 of this circular.

A notice convening the special general meeting of the Company to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 15 January 2009 at 10:30 a.m. is set out on pages 35 to 36 of this circular. Whether or not you are able to attend the meeting in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the meeting should you so wish.

29 December 2008

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DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:—

“Agreement”	the conditional sale and purchase agreement dated 19 April 2008 among Party A, Party B and Party C, pursuant to which Party C agreed to acquire (i) the 70% equity interest of Risheng from Party A; and (ii) the 30% equity interest of Risheng from Party B
“Board”	the board of Directors
“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
“Creditors”	北京嘉宇維業物業管理有限公司 (Beijing Jia Yu Wei Ye Property Development Limited) and 北京榮潤投資管理有限公司 (Beijing Rong Run Investment and Management Limited)
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the 70% equity interest of Risheng by Party A to Party C pursuant to the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of PRC
“Independent Board Committee”	the independent board committee of the Company comprising independent non-executive Directors, namely Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam
“Independent Shareholders”	Shareholders other than Mr. Wong and his associates
“Latest Practicable Date”	24 December 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Loan Novation Agreements”	two loan novation agreements entered into by Party A and Mr. Wong with the Creditors respectively for the purpose of the novating the liabilities under the Party A Loans
“Mr. Wong”	Mr. Wong Lik Ping, the executive Director and Chairman of the Company
“Party A”	山西金山能源有限責任公司 (Shanxi Jinshan Energy Limited), a sino-foreign equity joint venture incorporated in the PRC with limited liability and indirectly owned as to 94.17% by the Company as at the Latest Practicable Date
“Party A Loans”	two loans in an aggregate amount of RMB35,000,000 (approximately HK\$39,273,000), being part of the Risheng Loans, to be assumed by Party A and novated to Mr. Wong at nil consideration pursuant to the Loan Novation Agreements
“Party B”	山西焦煤集團有限責任公司 (Xishan Coal and Electricity (Group) Co., Ltd), a state-owned enterprise established under the laws of the PRC
“Party C”	山西西山煤電股份有限公司 (Shanxi Xishan Coal and Electricity Power Co., Limited), an enterprise established under the laws of the PRC and is a subsidiary of Party B
“PRC”	The People’s Republic of China, for the purpose of this circular only, excludes Hong Kong, Taiwan and Macau Special Administrative Region
“Risheng”	太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Co., Ltd.), a company established under the laws of the PRC
“Risheng Loans”	the principal amount of all loans advanced by Party A and other creditors to Risheng amounting to RMB119,277,882 (approximately HK\$133,840,000) as at 31 March 2008, of which approximately RMB84,277,882 (approximately HK\$94,567,000) advanced by Party A to Risheng
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 15 January 2009 at 10:30 a.m. for approving the Agreement, the Loan Novation Agreements and the transactions contemplated therein
“Share(s)”	share(s) in the issued share capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Report”	the assets valuation report of Risheng prepared by the Valuer
“Valuer”	Asset Appraisal Limited, an independent valuer who is a third party independent of the Company and connected persons of the Company
“Veda Capital”	Veda Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal
“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 circular, all amounts in RMB are translated into HK\$ at an exchange rate of RMB1:HK\$0.8912.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Wong Lik Ping (*Chairman*)
Mr. So Kwok Hoo
Mr. Xue Kang
Mr. Huang Bin
Mr. Lin Qingshan

Registered Office:

12th Floor
Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai
Hong Kong

Non-Executive Directors:

Mr. Li King Luk
Mr. Shi Jianping

Independent Non-Executive Directors:

Mr. Kee Wah Sze
Mr. Choi Wai Yin
Mr. Chan Pat Lam

29 December 2008

To the Shareholders,

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

On 23 April 2008, the Board announced that on 19 April 2008, Party A, a subsidiary owned as to 94.17% by the Company, and Party B as the vendors entered into the Agreement with Party C as the purchaser, pursuant to which Party C agreed to acquire 70% equity interest of Risheng from Party A and 30% equity interest of Risheng from Party B. Pursuant to the Agreement, Party A will have to assume the Risheng Loans amounting to RMB119,277,882 (approximately HK\$133,840,000) as at 31 March 2008 due by Risheng to various creditors. On 19 April 2008, Party A and Mr. Wong also entered into the Loan Novation Agreements with the Creditors respectively, pursuant to which Mr. Wong agreed to assume the liabilities under the Party A Loans in the aggregate amount of RMB35,000,000 (approximately HK\$39,273,000) to be owed by Party A to the Creditors upon completion of the Agreement for nil consideration.

As the applicable percentage ratio for the Disposal under the Listing Rules is more than 5% and less than 25%, the Disposal constitutes a discloseable transaction for the Company under Rule 14.08 of the Listing Rules. As Party B is the substantial shareholder of Risheng and Party C (being a non-wholly owned subsidiary of Party B) is an associate

LETTER FROM THE BOARD

of Party B, Party C is a connected person (as defined in the Listing Rules) of the Company under the Listing Rules and the Disposal also constitutes a connected transaction for the Company. The assumption of liabilities under the Party A Loans by Mr. Wong, being a financial assistance, also constitutes a connected transaction under Rule 14A.13(2)(b)(i) of the Listing Rules. As the assumption of liabilities under the Party A Loans form part of the Disposal, the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans are 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 1,423,171,900 Shares, representing approximately 31.18% of the issued share capital of the Company as at the Latest Practicable Date) will be required to abstain from voting at the SGM. The Independent Board Committee has been appointed by the Board to advise the Independent Shareholders on the terms of the Agreement and the Loan Novation Agreements. Veda Capital has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to give the Shareholders with details of the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans, the recommendation from the Independent Board Committee, the advice of Veda Capital and a notice to convene the SGM to consider and, if thought fit, pass the resolution to approve the Agreement and the Loan Novation Agreements.

THE AGREEMENT DATED 19 APRIL 2008

Parties

Party A: 山西金山能源有限責任公司(Shanxi Jinshan Energy Limited), a sino-foreign equity joint venture incorporated in the PRC with limited liability and owned as to 94.17% by the Company as at the Latest Practicable Date.

Party B: 山西焦煤集團有限責任公司(Xishan Coal and Electricity (Group) Co., Limited), a state-owned enterprise established under the laws of the PRC, which is an investment holding company and is engaged in coal mining and sales and production of coal products etc.

Party C: 山西西山煤電股份有限公司(Shanxi Xishan Coal and Electricity Power Co., Limited), an enterprise established under the laws of the PRC and is a subsidiary of Party B, which is engaged in coal mining, sales and production of coal products, electricity and mine-related machinery etc.

As Party B is the substantial shareholder of Risheng and Party C (being a non-wholly owned subsidiary of Party B) is an associate of Party B, Party C is a connected person (as defined in the Listing Rules) of the Company.

LETTER FROM THE BOARD

Assets to be disposed of and liabilities to be assumed

Under the Agreement, Party A will dispose of 70% equity interest of Risheng and assume the outstanding amount of the Risheng Loans together with accrued interest amounted to RMB124,031,336 (approximately HK\$139,173,000) as at 31 March 2008 due by Risheng to various creditors.

Consideration

The aggregate consideration for the 70% equity interest of Risheng and the assumption of liabilities under the Risheng Loans was arrived at after arm's length negotiations between the parties to the Agreement with reference to the valuation on the net assets (after exclusion of the Risheng Loans together with accrued interest) of Risheng as at 31 March 2008 (based on the replacement cost valuation method) for the purpose of compliance with the PRC regulatory requirements.

The Risheng Loans were arranged for financing the construction of the coke plant of Risheng. Based on the unaudited management accounts of Risheng as at 31 March 2008 prepared under Hong Kong Financial Reporting Standards, the principal amount of the Risheng Loans was RMB119,277,882 (approximately HK\$133,840,000) and the outstanding amount of the Risheng Loans together with accrued interest was RMB124,031,336 (approximately HK\$139,173,000). As at the Latest Practicable Date, the principal amount of the Risheng Loans was RMB119,277,882 (approximately HK\$133,840,000) and the outstanding amount of the Risheng Loans together with accrued interest was RMB124,031,336 (approximately HK\$139,173,000). The aggregate consideration will be determined in the following manner:

- (a) In the event that the valuation on the net assets (after exclusion of the Risheng Loans together with accrued interest) of Risheng is more than RMB119,000,000 (approximately HK\$133,528,000), the aggregate consideration payable by Party C to Party A for the 70% equity interest of Risheng and the assumption of the Risheng Loans is RMB110,000,000 (approximately HK\$123,429,000) and the consideration payable by Party C to Party B for the 30% equity interest of Risheng is RMB9,000,000 (approximately HK\$10,099,000).
- (b) In the event that the valuation on the net assets (after exclusion of the Risheng Loans together with accrued interest) of Risheng is less than RMB119,000,000 (approximately HK\$133,528,000), the aggregate consideration payable by Party C to Party A for the 70% equity interest of Risheng and the assumption of the Risheng Loans will be determined after further negotiation between Party A and Party C. It is expected that the consideration will be revised downward.

As disclosed in the announcement of the Company dated 7 November 2008, the net asset valuation (after exclusion of the Risheng Loans together with accrued interest) of Risheng was valued by a PRC independent professional valuer, at the amount of RMB149,277,882 (approximately HK\$167,502,000) as at 31 March 2008 and the net asset valuation report of Risheng has been approved by 山西省國有資產監督管理委員會 (Shanxi Province State-owned Assets Regulatory Management Committee). The net asset valuation

LETTER FROM THE BOARD

(after exclusion of the Risheng Loans together with accrued interest) of Risheng of RMB149,277,882 is the sum of (i) the net asset valuation of Risheng of RMB30,000,000 as at 31 March 2008 as valued by the PRC independent professional valuer and (ii) the Risheng Loans of RMB119,277,882. As such, the final consideration payable by Party C to Party A is RMB110,000,000 (approximately HK\$123,429,000).

The aggregate consideration of RMB110,000,000 (approximately HK\$123,429,000) represents a premium of 7.28% over the sum of (i) the net assets value of RMB13,504,332 (approximately HK\$15,153,000) attributable to 70% equity interest of Risheng as at 31 March 2008; (ii) the outstanding liabilities (including accrued interest) under the Risheng Loans of RMB124,031,336 (approximately HK\$139,173,000); and (iii) the benefit of RMB35,000,000 (approximately HK\$39,273,000) under the Loan Novation Agreements.

Party C will settle the considerations payable to Party A and Party B within 30 days after completion of the Agreement.

The assets valuation report of Risheng with its valuation mainly on coal coking ovens, machineries and equipments, buildings and structures and motor vehicles of RMB125 million as at 31 October 2008 was also prepared for inclusion in this circular. The Valuation Report sets out in Appendix I to this circular and the net assets reconciliation of Risheng sets out as follows:

	Net assets valuation as at 31 March 2008 per PRC independent professional valuer RMB'000	Increase/ (decrease) during the period from 1 April 2008 to 31 October 2008 per PRC management account RMB'000	Net assets as at 31 October 2008 per PRC management account RMB'000	Revaluation deficit as at 31 October 2008 per Valuation Report RMB'000	Restated net assets as at 31 October 2008 per Valuation Report RMB'000
Fixed assets, construction in progress and inventories	142,033	306	142,339	(17,339)	125,000
Other assets (mainly comprise cash, prepayments and pre-operating expenses)	33,842	(2,776)	31,066	-	31,066
Risheng Loans	(119,278)	1,750	(117,528)	-	(117,528)
Other liabilities	(26,597)	720	(25,877)	-	(25,877)
	<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>(17,339)</u>	<u>12,661</u>

LETTER FROM THE BOARD

Conditions

Completion of the Agreement is conditional upon satisfaction of the following conditions:

- (a) Signing and affixing stamps on the Agreement by the parties to the Agreement.
- (b) Compliance with the state-owned asset transfer requirements and obtain the approval of the asset valuation of Risheng from 山西省國有資產監督管理委員會 (Shanxi Province State-owned Assets Regulatory Management Committee).
- (c) Compliance with the Listing Rules.

INFORMATION OF RISHENG

Risheng was jointly established by Party A and Party B on 23 December 2003 with a registered capital of RMB30,000,000 (approximately HK\$33,662,000). Risheng is currently owned as to 70% and 30% by Party A and Party B respectively. The principal activities of Risheng are the production and sales of coke products. It is expected that completion of the construction of the coke plant of Risheng and commencement of the operation will take place by the end of 2008. The estimated maximum annual production capacity of the coke plant is about 600,000 tonnes.

Based on the unaudited management accounts of Risheng prepared under Hong Kong Financial Reporting Standards, the unaudited loss attributable to the equity holders of Risheng before and after taxation for the year ended 31 December 2006 were both approximately RMB748,000 (approximately HK\$839,000) and the unaudited loss attributable to the equity holders of Risheng before and after taxation for the year ended 31 December 2007 were both approximately RMB981,000 (approximately HK\$1,101,000). As at 31 March 2008, the unaudited net asset value of Risheng was approximately RMB19,292,000 (approximately HK\$21,647,000).

Upon completion of the Agreement, the Company will cease to have any interest in Risheng and Risheng will cease to be a subsidiary of the Company.

THE LOAN NOVATION AGREEMENTS DATED 19 APRIL 2008

On 19 April 2008, Party A and Mr. Wong also entered into the Loan Novation Agreements with the Creditors, pursuant to which Mr. Wong agreed to assume the liabilities under the Party A Loans in the fixed aggregate amount of RMB35,000,000 (approximately HK\$39,273,000), being part of the Risheng Loans, to be owed by Party A to the Creditors upon completion of the Agreement for nil consideration.

The novation of the Party A Loans is conditional on (i) completion of the Agreement and (ii) completion of the registration of the transfer of 100% equity interest in Risheng to Party C.

LETTER FROM THE BOARD

As the aggregate consideration under the Agreement is lower than the sum of (i) the net assets value of RMB13,504,332 (approximately HK\$15,153,000) attributable to 70% equity interest of Risheng as at 31 March 2008 and (ii) the outstanding liabilities (including accrued interest) under the Risheng Loans of RMB124,031,336 (approximately HK\$139,173,000), the assumption of the Party A Loans serves to compensate the Company so that the Company will not suffer a loss upon completion of the Disposal.

REASONS FOR THE DISPOSAL

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.

Risheng was established in December 2003 and has been engaged in the construction of the first manufacturing plant of the Group for the production and sales of coke products. The coke plant of Risheng is located at 古交市 (Gu Jiao City) which is situated at the north side of Shanxi Province of the PRC. Subsequent to the formation of Risheng, the Group also established 山西曜鑫煤焦有限公司 (Shanxi Yao Xin Coal and Coking Company Limited) in December 2004 which has been engaged in the construction of another coking coal plant in 吕梁市 (Lu Liang City) with an annual production capacity of 1,000,000 tonnes. Construction of the coke plant of 山西曜鑫煤焦有限公司 (Shanxi Yao Xin Coal and Coking Company Limited) has been completed and commenced operation in the second quarter of 2008. Other than the construction of the coke plants, Party A also increased its registered capital from RMB100 million to RMB400 million in December 2007 and the additional capital contribution was planned to be used to set up a coal washing plant with an annual production capacity of 3,000,000 tonnes. As mentioned in the announcement of the Company dated 14 May 2008 and the circular of the Company dated 25 June 2008, the Company has acquired a group of companies (the "Coal Mines") which principal businesses include coking coal mining and production and sales of raw and clean coking coal in 柳林市 (Liulin City) which is situated at the south side of Shanxi Province in the PRC. Other than the coke plant of Risheng which is located at the north side of Shanxi Province, all the other coke plant and coal washing plant of the Group and the mine operation of the Coal Mines are clustered at the south-west side of Shanxi Province with close proximity to each other. Accordingly, the coke plant of Risheng is not expected to bring about much synergy to the business operation of the Group. The Disposal will enable the Group to realize its investment in Risheng and better utilize its resources to focus on the business operations of the new coke plant and coal washing plant and the Coal Mines which are all located at the south-west side of Shanxi Province in the PRC with close proximity to each other.

Based on the net asset value of Risheng as at 31 March 2008 of approximately RMB19,292,000 (approximately HK\$21,647,000) and taking into account the assumption of the outstanding liabilities (including accrued interest) under the Risheng Loans of RMB124,031,336 (approximately HK\$139,173,000); and the benefit to the Group of RMB35,000,000 (approximately HK\$39,273,000) under the Loan Novation Agreement, the Directors estimate that a gain of around HK\$7,500,000 (subject to audit and after associated costs and other expenses) will arise on the Disposal.

LETTER FROM THE BOARD

As completion of the construction of the coking coke plant of Risheng and commencement of the operation is expected to take place by the end of 2008, the Directors consider that the Disposal will not have any material adverse impact on the earnings, assets and liabilities of the Group. The net proceeds of the Disposal, after deduction of the relevant expenses, are estimated at approximately HK\$23,000,000 which are intended to be used as working capital for the business operation of Party A.

SGM

A notice convening the SGM at which resolution will be proposed to consider, and if thought fit, to approve the Agreement and the Loan Novation Agreements to be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 15 January 2009 at 10:30 a.m. is set out on pages 35 to 36 of this circular. Whether or not you are able to attend the meeting in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the meeting should you so wish.

Mr. Wong and his associates (the controlling Shareholder interested in 1,423,171,900 Shares, representing approximately 31.18% of the issued share capital of the Company as at the Latest Practicable Date) will be required to abstain from voting at the SGM.

PROCEDURES TO DEMAND A POLL

Pursuant to Article 68 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three members present in person or by proxy or representative for the time being entitled to vote at the meeting; or
- (iii) any member or members present in person or by proxy or representative and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or by proxy or representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Directors consider that the Agreement and the Loan Novation Agreements are on normal commercial terms and the terms of the Agreement and the Loan Novation Agreements are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution which will be proposed at the SGM to approve the Agreement and the Loan Novation Agreements.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

By Order of the Board
SO KWOK HOO
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

29 December 2008

To the Independent Shareholders,

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to this circular dated 29 December 2008 issued by the Company of which this letter forms part. Terms defined in this circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Agreement and the Loan Novation Agreements and to advise you as to whether, in our opinion, the terms of the Agreement and the Loan Novation Agreements are fair and reasonable so far as the Independent Shareholders are concerned. Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Agreement and the Loan Novation Agreements.

We also wish to draw your attention to (i) the letter from the Board; (ii) the letter from Veda Capital; and (iii) the additional information set out in the appendices to this circular.

Having considered the terms of the Agreement and the Loan Novation Agreements, and having taken into account the opinion of Veda Capital and, in particular, the factors, reasons and recommendations as set out in the letter from Veda Capital on pages 13 to 24 of this circular, we consider that the terms of the Agreement and the Loan Novation Agreements are fair and reasonable so far as the Independent Shareholders are concerned, and the Agreement and the Loan Novation Agreements are in the interests of the Independent Shareholders. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution which will be proposed at the SGM to approve the Agreement and the Loan Novation Agreements.

Yours faithfully,

For and on behalf of

the Independent Board Committee

Kee Wah Sze Choi Wai Yin Chan Pat Lam

Independent non-executive Directors

LETTER FROM VEDA CAPITAL

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans, which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL
智略資本

Veda Capital Limited
Suite 1302, 13th Floor, Takshing House
20 Des Voeux Road Central, Hong Kong

29 December 2008

*To the Independent Board Committee
and the Independent Shareholders of
Fushan International Energy Group Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in this circular (the “**Circular**”) dated 29 December 2008 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 19 April 2008, Party A, a subsidiary owned as to 94.17% by the Company, and Party B as the vendors entered into the Agreement with Party C as the purchaser, pursuant to which Party C agreed to acquire 70% equity interest of Risheng from Party A and 30% equity interest of Risheng from Party B. Pursuant to the Agreement, Party A will have to assume the Risheng Loans together with accrued interest as at 31 March 2008 due by Risheng to various creditors. As Party B is a substantial shareholder of Risheng and Party C (being a non-wholly owned subsidiary of Party B) is an associate of Party B, Party C is a connected person (as defined in the Listing Rules) of the Company under the Listing Rules. The Disposal constitutes a discloseable and connected transaction of the Company under Rules 14.08 and 14A.16(5) of the Listing Rules respectively and will be subject to, and conditional on, among other things, the approval of the Independent Shareholders by poll at the SGM.

LETTER FROM VEDA CAPITAL

On 19 April 2008, Party A and Mr. Wong also entered into the Loan Novation Agreements with the Creditors respectively, pursuant to which Mr. Wong agreed to assume the liabilities under the Party A Loans in the aggregate amount of RMB35,000,000 (approximately HK\$39,273,000) to be owned by Party A to the Creditors upon completion of the Agreement for nil consideration. The assumption of liabilities under the Party A Loans by Mr. Wong, being a financial assistance, also constitutes a connected transaction under Rule 14A.13(2)(b)(i) of the Listing Rules. As the assumption of liabilities under the Party A Loans forms part of the Disposal, (i) the Disposal; (ii) the assumption of the Risheng loans by Party A; and (iii) the assumption of the liabilities under the Party A Loans are subject to the approval of the Independent Shareholders at the SGM with the vote to be taken on a poll.

The Independent Board Committee (comprising the independent non-executive Directors, namely Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam) which is not involved in or has no interest in the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans and thus being independent, has been established to advise the Independent Shareholders in respect of the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans are in the interests of the Company and the Independent Shareholders as a whole; (iii) whether the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans are on normal commercial terms and in the ordinary and usual course of business of the Company; and (iv) whether the Independent Shareholders should vote in favour of the resolution to approve the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans.

BASIS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, Directors and management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, Directors and management of the Company and for which they are solely and wholly responsible for, were true and accurate at the time when they were made and continue to be true until the date of the SGM.

LETTER FROM VEDA CAPITAL

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or its subsidiaries.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

Reasons for the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans

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.

As stated in the Board Letter, Risheng was established in December 2003 and has been engaged in the construction of the first manufacturing plant of the Group for the production and sales of coke products. The coke plant of Risheng is located at 古交市 (Gu Jiao City) which is situated at the north side of Shanxi Province of the PRC with an estimated maximum annual production capacity of about 600,000 tonnes. Completion of the construction of the coke plant of Risheng and commencement of the operation is expected to take place by the end of 2008.

Subsequent to the formation of Risheng, the Group also established 山西曜鑫煤焦有限公司 (Shanxi Yao Xin Coal and Coking Company Limited) in December 2004 which has been engaged in the construction of another coke plant in 吕梁市 (Lu Liang City) with an annual production capacity of 1,000,000 tonnes. Construction of the coke plant of 山西曜鑫煤焦有限公司 (Shanxi Yao Xin Coal and Coking Company Limited) has been completed and production started in July of 2008. In addition, Party A also increased its registered capital from RMB100 million to RMB400 million in December 2007 and the additional capital contribution was planned to be used to set up a coal washing plant with an annual production capacity of 3,000,000 tonnes. As mentioned in the announcement of the Company dated 21 May 2008 and circular of the Company dated 25 June 2008, on 9 May 2008 the Group entered into a sale and purchase agreement for the acquisition (the “**Previous Acquisition**”) of a group of companies which principal businesses include coking coal mining and production and sales of raw and clean coking coal in the PRC. The coal mine and the business operation of the group of companies are located at 柳林市 (Liulin City) which is situated at the south side of Shanxi Province in the PRC. The Previous Acquisition was completed on 25 July 2008.

LETTER FROM VEDA CAPITAL

Other than the coke plant of Risheng which is located at the north side of Shanxi Province, all the other coke plant and coal washing plant of the Group and the mine operation of the Previous Acquisition are clustered at the south-west side of Shanxi Province with close proximity to each other. Given the fact that transportation cost constitutes a substantial part in the business of production and sales of coke products, close proximity of coke plants of the Group could enhance efficiency and synergy. Accordingly, the coke plant of Risheng is not expected to bring about much synergy to the business operation of the Group. We are of the opinion and concur with the Directors that the Disposal will enable the Group to realize its investment in Risheng and better utilize its resources to focus on the business operations of the new coke plant and coal washing plant and the mine production of the Previous Acquisition which are all located at the south-west side of Shanxi Province in the PRC with close proximity to each other.

Pursuant to the Agreement, Party A will have to assume the Risheng Loans (which were arranged for financing the construction of the coke plant of Risheng) amounting to RMB119,277,882 (approximately HK\$133,840,000) as at 31 March 2008 due by Risheng to various creditors. As such, the aggregate consideration under the Agreement is lower than the sum of (i) the net assets value of RMB13,504,332 (approximately HK\$15,153,000) attributable to 70% equity interest of Risheng as at 31 March 2008 and (ii) the outstanding liabilities (including accrued interest) under the Risheng Loans of RMB124,031,336 (approximately HK\$139,173,000). In order to compensate the Company so that the Company will not suffer a loss upon completion of the Disposal, on 19 April 2008, Party A and Mr. Wong also entered into the Loan Novation Agreements with the Creditors respectively, pursuant to which Mr. Wong agreed to assume the liabilities under the Party A Loans in the aggregate amount of RMB35,000,000 (approximately HK\$39,273,000) to be owed by Party A to the Creditors upon completion of the Agreement for nil consideration. We share the view of the Directors that the assumption of the Risheng Loans by Party A together with the assumption of liabilities under the Party A Loans are fair and reasonable to the Independent Shareholders and the Company.

Conditions

Completion of the Agreement is subject to the fulfillment of the following conditions:

- (a) signing and affixing stamps on the Agreement by the parties to the Agreement;
- (b) compliance with the state-owned asset transfer requirements and obtain the approval of the asset valuation of Risheng from 山西省國有資產監督管理委員會 (Shanxi province State-owned Assets Regulatory Management Committee); and
- (c) compliance with the Listing Rules.

The novation of the Party A Loans is conditional on:

- (i) completion of the Agreement; and
- (ii) completion of the registration of the transfer of 100% equity interest in Risheng to Party C.

LETTER FROM VEDA CAPITAL

Given the above conditions are for compliance of the relevant provisions of the Listing Rules and fulfilling the requirements by the relevant authorities, we concur with the Directors that the conditions of the Agreement and novation of the Party A Loans are in normal commercial terms and fair and reasonable to the Company and the Independent Shareholders.

Financial information of Risheng

Risheng was jointly established by Party A and Party B on 23 December 2003 with a registered capital of RMB30,000,000 (approximately HK\$33,662,000). Risheng is currently owned as to 70% and 30% by Party A and Party B respectively. The principal activities of Risheng are the production and sales of coke products. It is expected that completion of the construction of the coke plant of Risheng and commencement of the operation will take place by the end of 2008. The estimated maximum annual production capacity of the coke plant is about 600,000 tonnes. Upon completion of the Agreement, Risheng will cease to be a subsidiary of the Company.

Based on the unaudited management accounts of Risheng prepared under Hong Kong Financial Reporting Standards, the results of Risheng for the two years ended 31 December 2007 were as follows:

	For the year ended		For the year ended	
	31 December 2007		31 December 2006	
	(unaudited)		(unaudited)	
	<i>RMB</i>	<i>HK\$</i>	<i>RMB</i>	<i>HK\$</i>
Net loss before taxation	981,000	1,101,000	748,000	839,000
Net loss after taxation	981,000	1,101,000	748,000	839,000

As can be seen from the above table, Risheng has been incurring losses for the last two years ended 31 December 2007.

The Risheng Loans were arranged for financing the construction of the coke plant of Risheng. Based on the unaudited management accounts of Risheng as at 31 March 2008 prepared under Hong Kong Financial Reporting Standards, the amount of the net asset value of Risheng (after exclusion of the Risheng Loans together with accrued interest) was arrived as follows:

	<i>RMB</i>	<i>HK\$</i>
Unaudited net asset value of Risheng	19,292,000	21,647,000
Add: Principal amount of the Risheng Loans of RMB119,277,882 (approximately HK\$133,840,000) together with accrued interest	124,031,336	139,173,000
Unaudited net asset value of Risheng (after exclusion of the Risheng Loans together with accrued interest)	143,323,336	160,820,000

LETTER FROM VEDA CAPITAL

As disclosed in the announcement of the Company dated 7 November 2008 and in the Board Letter, the net asset valuation (“**Risheng Loans Excluded Valuation**”) of Risheng (after exclusion of the Risheng Loans together with accrued interest) was valued by a PRC valuer, an independent professional valuer, at the amount of RMB149,277,882 (approximately HK\$167,502,000) as at 31 March 2008. In the Valuation Report, the Risheng Loans Excluded Valuation as at 31 October 2008 was in the amount of RMB130,189,000 (approximately HK\$146,082,000).

Consideration

The aggregate consideration for the 70% equity interest of Risheng and the assumption of liabilities under the Risheng Loans was arrived at after arm’s length negotiations between the parties to the Agreement with reference to the valuation on the net assets (after exclusion of the Risheng Loans together with accrued interest) of Risheng as at 31 March 2008 (based on the replacement cost valuation method), i.e. the Risheng Loans Excluded Valuation, for the purpose of compliance with the PRC regulatory requirements.

Pursuant to the Agreement, in the event that the Risheng Loans Excluded Valuation is:

- (a) more than RMB119,000,000 (approximately HK\$133,528,000), the aggregate consideration payable by Party C to Party A for the 70% equity interest of Risheng and the assumption of the Risheng Loans is RMB110,000,000 (approximately HK\$123,429,000) and the consideration payable by Party C to Party B for the 30% equity interest of Risheng is RMB9,000,000 (approximately HK\$10,099,000).
- (b) less than RMB119,000,000 (approximately HK\$133,528,000), the aggregate consideration payable by Party C to Party A for the 70% equity interest of Risheng and the assumption of the Risheng Loans will be determined after further negotiation between Party A and Party C. It is expected that the consideration will be revised downward.

As disclosed in the announcement of the Company dated 7 November 2008 and in the Board Letter, the Risheng Loans Excluded Valuation was valued by a PRC independent professional valuer at the amount of RMB149,277,882 (approximately HK\$167,502,000) as at 31 March 2008 and the net asset valuation report of Risheng has been approved by 山西省國有資產監督管理委員會 (Shanxi Province State-owned Assets Regulatory Management Committee). As such, the final consideration payable by Party C to Party A is RMB110,000,000 (approximately HK\$123,429,000).

LETTER FROM VEDA CAPITAL

Valuation under the Agreement and the Loan Novation Agreement

Pursuant to the terms of the Agreement and the Loan Novation Agreement, the sum (the “**Book Value Sum**”) of (i) net assets value attributable to 70% equity interest of Risheng as at 31 March 2008; (ii) the outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008; and (iii) benefit under the Loan Novation Agreements for assumption of the liabilities under the Party A Loans by Mr. Wong are calculated as follows:

	RMB	HK\$
(i) 70% of the net asset value of Risheng as at 31 March 2008	70% x 19,292,000 = 13,504,332	70% x 21,647,000 = 15,153,000
(ii) the outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008	124,031,336	139,173,000
(iii) benefit under the Loan Novation Agreements for assumption of the liabilities under the Party A Loans by Mr. Wong	(35,000,000)	(39,273,000)
Total	102,535,668	115,053,000

On the other hand, based on the Risheng Loans Excluded Valuation as at 31 March 2008, 70% valuation of the net assets of Risheng other than outstanding liabilities including accrued interest as at 31 March 2008 is calculated as follows

	RMB	HK\$
Risheng Loans Excluded Valuation	149,277,882	167,502,000
<i>Deduct:</i> the outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008	(124,031,336)	(139,173,000)
Valuation of net assets of Risheng other than outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008	25,246,546	28,329,000
70% of valuation of net assets of Risheng other than outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008	17,672,582	19,830,300

LETTER FROM VEDA CAPITAL

Accordingly, the sum (the “**Valuation Sum**”) of (i) 70% of valuation of net assets of Risheng other than outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008 of RMB17,672,582 (approximately HK\$19,830,000); (ii) the outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008 of RMB124,031,336 (approximately HK\$139,173,000); and (iii) benefit of RMB35,000,000 (approximately HK\$39,273,000) under the Loan Novation Agreements for assumption of the liabilities under the Party A Loans by Mr. Wong would be approximately RMB106,703,918 (approximately HK\$119,730,300).

With the same methodology, the Valuation Sum as at 31 October 2008 based on the Valuation Report would be approximately RMB92,816,701 (approximately HK\$104,148,000).

Comparable analysis

In assessing the fairness and reasonableness of the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans, we have make comparison to all the other comparable listed companies on the main board and the growth enterprise market of the Stock Exchange (the “**Sector Comparables**”), which principal activities include production and sales of coke products. Our findings on the 8 Sector Comparables are summarized below:

Company name (Stock code)	Principal business	Closing share price as at the Latest Practicable Date (HK\$)	Market Capitalisation as at the Latest Practicable Date (HK\$ million)	Price-earnings multiple based on closing share price as at the Latest Practicable Date (times)	Latest net asset/ (liability) value prior to the Latest Practicable Date (HK\$ million)	Premium/ (discount) of market capitalization as at the Latest Practicable Date over/(to) latest published net asset value (%)
China Coal Energy Company Limited (1898)	Production, sales and trading of coal, coke, coal-based chemicals, and manufacture of coal mining equipments	5.6	22,997	3.4	30,666	(25.01)
China Shenhua Energy Company Limited. (1088)	Production and sale of coal, generation and sale of power and the provision of transportation services in the PRC	15.22	51,726	2.24	145,622	(64.48)
DeTeam Company Limited (8112)	Manufacturing and sale of plastic woven bags and paper bags; trading and distribution of coal; and provision of transportation technology solutions	0.32	136	3.76	337.02	(59.78)

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Company name (Stock code)	Principal business	Closing share price as at the Latest Practicable Date (HK\$)	Market Capitalisation as at the Latest Practicable Date (HK\$ million)	Price-earnings multiple based on closing share price as at the Latest Practicable Date (times)	Latest net asset/ (liability) value prior to the Latest Practicable Date (HK\$ million)	Premium/ (discount) of market capitalization as at the Latest Practicable Date over/(to) latest published net asset value (%)
Dynamic Energy Holdings Ltd (578)	Production and sale of coal in the PRC	0.5	335	2.49	363.48	(7.89)
Hidili Industry International Development Limited (1393)	Coal mining and production and sale of high quality clean coal and coke	2.28	4,697	7.34	5,620	(16.42)
Kiu Hung Energy Holdings Limited (381)	Design, manufacture, sale of a wide range of toys and decorative gift items and exploration and mining of natural resources	0.24	962	Not applicable since loss making	447.51	114.98
Ming Kei Energy Holdings Limited (8239)	Coordinating various logistics services for its customers and engaged in mining, sale and distribution of coals in the PRC	0.244	644	41.86	944.39	(31.79)
Yanzhou Coal Mining Company Limited (1171)	Underground mining, preparation, sales and railway transportation services of coal	5.23	10,242	2.83	24,030	(57.38)
			Maximum	41.86	Maximum	114.98
			Minimum	2.24	Minimum	(64.48)
			Average	10.09	Average	(17.54)
(i) Book Value Sum of the Disposal			123.43 (Note 1)	Not applicable since loss making	115.05 (Note 2)	7.28
(ii) Valuation Sum of the Disposal as at 31 March 2008			123.43 (Note 1)	Not applicable since loss making	119.73 (Note 3)	3.09
(iii) Valuation Sum of the Disposal as at 31 October 2008			123.43 (Note 1)	Not applicable since loss making	104.15 (Note 4)	18.51

Source: website of the Stock Exchange (www.hkex.com.hk)

LETTER FROM VEDA CAPITAL

Notes:

1. Representing the final consideration payable by Party C to Party A is RMB110,000,000 (approximately HK\$123,429,000).
 2. Representing the Book Value Sum of the Disposal.
 3. Representing the Valuation Sum of the Disposal as at 31 March 2008.
 4. Representing the Valuation Sum of the Disposal as at 31 October 2008.
- (a) *Price-earnings multiple*

Although price-earnings multiple is one of the most commonly used benchmarks for comparing valuations, since Risheng recorded unaudited net loss for the year ended 31 December 2007, we consider the use of price-earnings multiple not a meaningful comparison method for assessing the Disposal.

(b) *Net asset value*

Assessing the consideration against the underlying net asset value is also a common way of valuation. We note that the coke plant of Risheng has not yet commenced operation whereas the plants of the Sector Comparables are already in operation. Given the completion of the construction of the coke plant of Risheng and commencement of the operation is expected to take place shortly by the end of 2008, we consider the comparable analysis on net asset value is still meaningful.

As shown in the above paragraphs in this section, the Book Value Sum of (i) net assets value attributable to 70% equity interest of Risheng as at 31 March 2008; (ii) the outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008; and (iii) benefit under the Loan Novation Agreements for assumption of the liabilities under the Party A Loans by Mr. Wong is RMB102,535,668 (approximately HK\$115,053,000). The Valuation Sum as at 31 March 2008 of (i) 70% of valuation of net assets of Risheng other than outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008 of RMB17,672,582 (approximately HK\$19,830,000); (ii) the outstanding liabilities including accrued interest under the Risheng Loans as at 31 March 2008 of RMB124,031,336 (approximately HK\$139,173,000); and (iii) benefit of RMB35,000,000 (approximately HK\$39,273,000) under the Loan Novation Agreements for assumption of the liabilities under the Party A Loans by Mr. Wong is approximately RMB106,703,918 (approximately HK\$119,730,300). The Valuation Sum as at 31 October 2008 is approximately RMB92,816,701 (approximately HK\$104,148,000).

LETTER FROM VEDA CAPITAL

On the other hand, the comparisons with the Sector Comparables based on the closing share price on the Latest Practicable Date to the net asset values range from a discount of approximately 64.48% to a premium of approximately 114.98% with an average of discount of approximately 17.54%. The final consideration payable by Party C to Party A of RMB110,000,000 (approximately HK\$123,429,000) represents (i) a premium of approximately 7.28% over the Book Value Sum of the Disposal; (ii) a premium of approximately 3.09% to the Valuation Sum of the Disposal as at 31 March 2008; and (iii) a premium of approximately 18.51% to the Valuation Sum of the Disposal as at 31 October 2008 respectively, which fall within the range of comparison with the Sector Comparables and thus outperforms the average of the comparison of discount in the amount of approximately 17.54%. In this regard, we are of the view that the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans are fair and reasonable to the Independent Shareholders.

Based on the above, we consider that the consideration is on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Financial effect of the transaction under the Agreement and the Loan Novation Agreement

Based on the net asset value of Risheng as at 31 March 2008 of approximately RMB19,292,000 (approximately HK\$21,647,000) and taking into account the assumption of the outstanding liabilities (including accrued interest) under the Risheng Loans of RMB124,031,336 (approximately HK\$139,173,000); and the benefit to the Group of RMB35,000,000 (approximately HK\$39,273,000) under the Loan Novation Agreement, the Directors estimate that a gain of around HK\$7,500,000 (subject to audit and after associated costs and other expenses) will arise on the Disposal. As completion of the construction of the coke plant of Risheng and commencement of the operation is yet to take place at the end of 2008, the Directors consider that the Disposal will not have any material adverse impact on the earnings, assets and liabilities of the Group.

The net proceeds of the Disposal, after deduction of the relevant expenses, are estimated at approximately HK\$23,000,000 which are intended to be used as working capital for the business operation of Party A.

Given the estimated gain and increase in working capital as a result of the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans, we concur with the Directors that the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans are in the interests of the Company and the Independent Shareholders.

LETTER FROM VEDA CAPITAL

Recommendation

Having taken into account the principal factors and reasons set out above, we consider that the terms and conditions of the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole and in the ordinary course of business of the Group. We also consider that the terms of the Agreement and the Loan Novation Agreements were entered into upon normal commercial terms. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Disposal, the assumption of the Risheng Loans by Party A and the assumption of the liabilities under the Party A Loans .

Yours faithfully,

For and on behalf of

Veda Capital Limited

Hans Wong

Julisa Fong

Managing Director

Executive Director

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 31 October 2008 of the Assets to be disposed.



Asset Appraisal Limited
資產評估顧問有限公司

Rm 802 8/F On Hong Commercial Building
No.145 Hennessy Road Wanchai HK
香港灣仔軒尼詩道145號安康商業大廈8樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

29 December 2008

The Board of Directors

Fushan International Energy Group Limited

12th Floor Kwan Chart Tower

No.6 Tonnochy Road

Wanchai, Hong Kong

Dear Sirs,

In accordance with the instructions from **Fushan International Energy Group Limited** (“the Company”) to provide value opinion on the fixed assets, construction-in-progress and inventories (the “Assets”) of **Taiyuan Xishan Risheng Coal and Coking Co., Ltd.** (“Risheng”), a 65.919%-owned subsidiary of the Company, located at Risheng Gou, Malan Town, Gujiao City, Shanxi Province, the People’s Republic of China (the “PRC”).

We confirm that we have inspected the Assets, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of fair value of the Assets as at **31 October 2008** (referred to as the “Valuation Date”).

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made and the limiting conditions underlying this valuation.

DESCRIPTION OF THE ASSETS

The Assets are located within an incomplete coke plant (the “Coke Plant”) held by Risheng and comprise the following major items in associate with coking operations:

- Coal coking ovens
- machineries and equipment in associate with coal coking including crushers, coal pushers and quenching cars with rails, silos, hoppers, conveying belts, tamper, charging larries, pumps
- capitalized costs for site formation

- buildings and structures for housing the machineries and equipment, administration, staff accommodation and amenities
- motor vehicles
- materials and fabrics for construction and installation of the Coke Plant

Construction and installation of the Coking Plant, which commenced in 2004, has been halted as at the Valuation Date. The designed processing capacity of the Coking Plant is 600,000 tons of coke per annum.

BASIS OF VALUATION

The Assets have been valued on the basis of "Fair Value" in the premise of continued use. In our appraisal, the fair value reflects the future economic benefit to be derived from the continuous operation of or the ownership of the Assets. Fair Value in continued use is defined as the estimated amount at which an asset might be expected to exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion and with the buyer and seller contemplating retention of the Assets for continuation of its current operations and implementation of the business plans in associate with the Assets.

An estimate of fair value arrived at on the premise of continued use does not represent the amount that might be realized from piecemeal disposition of the Assets in the marketplace or from an alternative use of them.

VALUATION METHODOLOGY

To develop our opinion of value, we have considered the depreciated replacement cost approach which establishes value based on the costs of reproducing or replacing the Assets, less depreciation from physical deterioration, and functional and economic/external obsolescence (if any).

Cost of Reproduction New is defined as the estimated current costs of reproducing a new replica of an asset with the same or closely similar materials.

Cost of Replacement New is defined as the estimated current costs of the new asset having the nearest equivalent utility as the asset being appraised.

Physical Deterioration is the loss in value of an asset from wear and tear of asset in operation and exposure to various elements.

Functional Obsolescence is the loss in value is due to factors inherent in the asset itself and changes in design, materials, or process that result in inadequacy, over capacity, excess construction, lack of functional utility or excess operating costs, etc.

Economic Obsolescence is an incurable loss in value caused by unfavorable external conditions.

LIMITING CONDITIONS

We have conducted visual inspection of the Assets as far as practicable save for those items that have buried, concealed or inaccessible. However, no full mechanical survey has been carried out. As at the Valuation Date, the Assets were in construction or installation stage and were not yet commissioned for operations. We have therefore assumed that the Assets shall be performed efficiently according to the purposes for which they were designed and built upon their completion of installation and commissioning.

We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the Assets are used. It was assumed that prospective earnings would provide a reasonable return on the market value of the Assets, plus the value of any assets not included in the appraisal, and adequate net working capital.

We accepted the records furnished by the Company as properly describing the Assets, their quantities, original costs and acquisition dates. We have relied to a very considerable extent on such records in arriving at our opinion of value.

We do not investigate any industrial safety environmental and health related regulations in association with the operating using the Assets. It is assumed that all necessary license, procedures, and measures for the operations using the Assets shall be implemented in accordance with the Government legislations and guidances.

In the course of our investigation, we have not investigated the title or any liabilities against the Assets. No consideration was made for outstanding amount owed under financing agreements and construction/installation contracts, if any. No allowance has been made in our valuation for any charges, mortgages or amount owing on the Assets nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that the Assets are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the Assets, we have complied with all the requirements contained in the International Valuation Standards (Eighth Edition) 2007.

OPINION OF VALUE OF THE ASSETS

After a thorough analysis of the Assets and review of the information assembled by us, it is our opinion that as at **31 October 2008**, the fair value in continued use of the Assets is reasonably represented by the amount of **RENMINBI YUANS ONE HUNDRED AND TWENTY FIVE MILLION ONLY (RMB125,000,000)**.

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

Yours faithfully,
For and on behalf of
ASSET APPRAISAL LIMITED

Lau Sze Wing Sandra
MFin MHKIS AAPI RPS(GP)

Samuel Wong PE CPD
Mechanical Engineer

Lau Sze Wing Sandra is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

Samuel Wong is a mechanical engineer, a licensed engineer in the State of Texas US and a certified plumbing designer. He has over 15 year's experience in performing mechanical project design, project cost estimation and quality control.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries and that to the best of their knowledge and belief there are no other facts the omission of which would make any statement therein misleading.

2. DISCLOSURE OF INTERESTS

Interest of Directors in the Company

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Directors' interest in Shares

Name of director	Personal interests	Number of Shares held			Total	Percentage of shareholding
		Family interests	Corporate interests			
Mr. Wong	(L)173,971,900	-	(L)1,249,200,000 <i>(Note a)</i>	(L)1,423,171,900	31.18%	
	-	-	(S)883,577,707 <i>(Note a & b)</i>	(S)883,577,707	(19.36%)	
Mr. Shi Jianping	(L)2,454,000	-	-	(L)2,454,000	0.05%	
Mr. Liu Qingshan	-	(L)330,000 <i>(Note c)</i>	-	(L)330,000	0.01%	

* *The letter "L" denotes a long position and the letter "S" denotes a short position.*

Note a: Mr. Wong is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,249,200,000 Shares as at the Latest Practicable Date. Mr. Wong is the sole director and sole shareholder of China Merit Limited.

Note b: The short position in 883,577,707 held by Mr. Wong through China Merit Limited was derived from the shares pledged to PA Capital Opportunity VII Limited for his personal loan ("Mr. Wong Personal Loan").

Note c: The spouse of Mr. Liu Qingshan is the beneficial shareholder.

Directors' interests in associated corporation

Name	Nature of associated corporation	Capacity	Number of shares	Percentage of shareholding
Mr. Wong	China Merit Limited	Beneficial Owner	150,000 ordinary shares	100%

Directors' interests in share options of the Company

On 26 April 2006, options to subscribe for a total of 16,900,000 Shares were granted under the share option scheme of the Company to Directors at the exercise price of HK\$1.5 per Share. The options may be exercised from 26 April 2008 to 25 April 2013. As at the Latest Practicable Date, details of the options are as follows:

Name of Director	Number of Shares under outstanding options
Mr. Wong	2,000,000
Mr. So Kwok Hoo	6,500,000
Mr. Xue Kang	6,000,000
Mr. Chan Pat Lam	800,000
Mr. Choi Wai Yin	800,000
Mr. Kee Wah Sze	800,000
	16,900,000

Save as disclosed above, as the Latest Practicable Date, none of the Directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Interests of substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the persons other than a Director or chief executive of the Company who has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO, or who is expected, directly or indirectly, to be interest in 5%, or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital, were as follow:

Interest in Shares

Name of shareholders	Capacity	Number of Shares held	Percentage of shareholding
Mr. Xing	Beneficial owner	(L)669,546,536 <i>(Note a)</i>	14.67%
Shougang Holding (Hong Kong) Limited	Corporate interest	(L)450,000,000 <i>(Note b)</i>	9.86%
Pacific Alliance Asia Opportunity Fund Limited	Corporate interest	(L)919,675,000 <i>(Note c)</i>	20.15%

* *The letter "L" denotes a long position.*

Note a: Pursuant to the substantial shareholder notices dated 30 July 2008, Mr. Xing is the beneficial owner of 86.9% of the entire issued share capital of Firstwealth Holdings Limited, which owned 669,546,536 Shares as at the Latest Practicable Date.

Note b: Pursuant to the substantial shareholder notices dated 25 July 2008, Shoungang Holding (Hong Kong) Limited is the beneficial owner of the entire issued share capital of Fine Power Group Limited, which owned 450,000,000 Shares as at the Latest Practicable Date.

Note c: Pursuant to the substantial shareholder notices dated 31 October 2008, Pacific Alliance Asia Opportunity Fund Limited ("PA Fund") is the beneficial owner of the entire issued share capital of PA Capital Opportunity VII Limited ("PA VII"), a lender of Mr. Wong Personal Loan, which held 919,675,000 Shares as at the Latest Practicable Date. Mr. Geicke Horst and Mr. Gradel Christopher Marcus are the ultimate beneficial owners of 45% and 40% of the entire issued share capital of PA Fund respectively. Out of such 919,675,000 Shares, 899,200,000 Shares were held by PA VII in the capacity as person having a security interest in Shares by mean of holding shares pledged for Mr. Wong's personal loan and a derivate interest in favour of PA VII and 20,750,000 Shares were held by PA VII in the capacity as person having a derivative interest in Shares. PA VII is not a registered shareholder of the Company as at the Latest Practicable Date.

Save as disclosed above, the Directors and the chief executive of the Company were not aware that there was any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group or had any options in respect of such capital.

Service Contracts

There is no existing or proposed service contract between any of the Directors and the Company or any of its members (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

Interests in other competing business

Save for Mr. Shi Jianping and his associates operating coal preparation plants and selling of clean coal as disclosed in the announcement of the Company dated 4 November 2008, each of the Directors has confirmed that he and their respective associates (as defined under the Listing Rules) do not have any interests in a business apart from the Group's business which directly competes with and will have material adverse impact on the Group.

Interests in assets

As at the Latest Practicable Date, save for the conditional sale and purchase agreement dated 9 May 2008 entered into among the Company, Jade Green Investments Limited as buyer, Mr. Wong, Fortune Dragon Group Limited as seller, and Mr. Xing Libin, pursuant to which Jade Green Investments Limited agreed to acquire from Fortune Dragon Group Limited the sale shares and the sale loans, details of which please refer to the announcement of the Company dated 21 May 2008, none of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up.

Interests in contract or arrangement

As at the Latest Practicable Date, save for the supply contract dated 3 November 2008 entered into among the members of the Group and Mr. Shi Jianping, details of which please refer to the announcement of the Company dated 4 November 2008, none of the Directors is materially interested in contract or arrangement subsisting which is significant in relation to the business of the Group.

3. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

4. EXPERTS AND CONSENTS

The qualification of the experts who have given opinion in this circular is as follows:

Name	Qualification
Veda Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
the Valuer	a professional valuer

As at the Latest Practicable Date, none of Veda Capital and the Valuer had any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group and had no direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up.

Each of Veda Capital and the Valuer has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which they respectively appear.

5. MATERIAL CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2007, being the date to which the latest audited consolidated financial statements of the Group were made up.

6. GENERAL

- (a) The Company secretary and qualified accountant of the Company is Lam Lin Chu, the member of Hong Kong Institute of Certified Public Accountant.
- (b) The registered office of the Company is situated at 12th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong.
- (c) The Company's share registrars is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 5:00 p.m. at the head office and principal place of business in Hong Kong at 12th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong up to and including 15 January 2009:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2007;
- (c) the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 13 to 24 of this circular;
- (d) the Valuation Report, the text of which is set out in Appendix I of this circular;
- (e) the written consent referred to in the paragraph headed "Experts and Consents" in this appendix;
- (f) the Agreement and the Loan Novation Agreements; and
- (g) circulars of the Company which have been issued since 31 December 2007.

NOTICE OF SGM



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)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Fushan International Energy Group Limited (the “Company”) will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 15 January 2009 at 10:30 a.m for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution:-

ORDINARY RESOLUTION

1. “**THAT :**

- (i) the conditional sale and purchase agreement dated 19 April 2008 (the “Agreement”) in relation to the disposal of 70% equity interest of 太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Co., Limited) (“Risheng”) to 山西西山煤電股份有限公司 (Shanxi Xishan Coal and Electricity Power Co., Limited) and the transactions contemplated thereunder (including but not limited to regarding 山西金山能源有限公司 (Shanxi Jinshan Energy Limited) (“Jinshan”) to assume the Risheng Loans (as defined in the circular of the Company dated 29 December 2008 to the shareholders of the Company of which this notice forms a part) amounting to RMB119,277,882 (approximately HK\$133,840,000) as at 31 March 2008 due by Risheng to various creditors) be and are hereby approved, confirmed and ratified;
- (ii) the two conditional loan novation agreements dated 19 April 2008 (the “Loan Novation Agreements”) in relation to the assuming the liabilities of the aggregate amount of RMB35,000,000 (approximately HK\$39,273,000) by Mr. Wong Lik Ping, being part of the Risheng Loans to be taken by Jinshan upon completion of the Agreement for nil consideration and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

NOTICE OF SGM

- (iii) the executive directors of the Company be and are hereby authorised on behalf of the Company to do all such acts and sign, seal, execute and deliver all such documents and take all such actions as they may consider necessary or desirable for the purpose of or in connection with or to give effect to the Agreement, the Loan Novation Agreements and the transactions contemplated thereunder.”

By Order of the Board
So Kwok Hoo
Executive Director

Hong Kong, 29 December 2008

Registered Office:
12th Floor
Kwan Chart Tower
6 Tonnochy Road
Wanchai
Hong Kong

Notes:

- (1) Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead in accordance with the Company's Articles of Association. A proxy need not be a shareholder of the Company. A form of proxy for use at the meeting is enclosed herewith.
- (2) Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.
- (3) Where there are joint registered holders of any shares, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders is present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such shares shall alone be entitled to vote in respect thereof.
- (4) To be valid, the form of proxy together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited with the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, No.28 Queen's Road East, Wanchai, Hong Kong at least 48 hours before the time appointed for holding the meeting or any adjournment thereof as the case may be and in default thereof the form of proxy and such power or authority shall not be treated as valid.
- (5) The votes to be taken at the meeting will be taken by poll.