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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 Ordinance)*

**(Stock Code: 639)**

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION,  
ISSUE OF CONSIDERATION SHARES  
AND  
RESUMPTION OF TRADING**

*Financial Advisers to the Company*



**Morgan Stanley**

Further to the announcements of the Company dated 31 January 2008, 3 March 2008, 31 March 2008 and 2 May 2008 in relation to the proposed acquisition of the Target Group, the Board announces that on 9 May 2008, the Company, the Buyer (a wholly owned subsidiary of the Company) and Mr. Wong (being the controlling Shareholder, the executive Director and Chairman of the Company) entered into the Agreement with the Seller and Mr. Xing (being the controlling shareholder of the Seller), pursuant to which the Buyer agreed to acquire and the Seller agreed to sell the Sale Shares and the Sale Loans at an aggregate consideration of HK\$10,530,000,000 (subject to adjustments), of which HK\$4,860,000,000 (subject to adjustments) will be satisfied in cash and HK\$5,670,000,000 will be satisfied by the issue and allotment of 1,260,000,000 Consideration Shares at the Issue Price, subject to the terms and conditions of the Agreement.

The 1,260,000,000 Consideration Shares represent (i) approximately 51.65% of the existing issued share capital of the Company and (ii) approximately 34.06% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Agreement was entered into by the parties after trading hours on 9 May 2008. As the applicable percentage ratios for the Acquisition under the Listing Rules are more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. The Seller is effectively owned as to approximately 56.92% by Mr. Xing, 7.50% by Mr. Wong and 35.58% by the Other Owners who are Independent Third Parties. Mr. Xing is a substantial shareholder of Luenshan, a non-wholly owned subsidiary of the Company, and is therefore a connected person of the Company. Based on Mr. Xing's shareholding in the Seller, the Seller is an associate of Mr. Xing and is therefore a connected person of the Company. As such, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM 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 50.83% of the issued share capital of the Company as at the date of this announcement) will be required to abstain from voting at the EGM. The Company will form an independent board committee to advise the Independent Shareholders on the terms of the Agreement and voting in respect of the Acquisition. 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 Acquisition, the valuation report, the Technical Review Report, the recommendation from the independent board committee, the advice of the independent financial adviser and a notice to convene the EGM, will be despatched to the Shareholders as soon as practicable.

#### **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading of the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 13 May 2008 pending the release of this announcement. The Company has applied for resumption of trading of the Shares on the Stock Exchange with effect from 9:30 a.m. on 22 May 2008.

#### **THE AGREEMENT DATED 9 MAY 2008**

##### **Parties**

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

Buyer: Jade Green Investments Limited, a company incorporated in BVI with limited liability and is a wholly owned subsidiary of the Company

Mr. Wong: Mr. Wong Lik Ping, being the controlling Shareholder, the executive Director and Chairman of the Company

Seller: Fortune Dragon Group Limited, a company incorporated in BVI with limited liability and is an investment holding company

Guarantor: Mr. Xing Libin, being the controlling shareholder of the Seller

The Seller is effectively owned as to approximately 56.92% by Mr. Xing, 7.50% by Mr. Wong and 35.58% by the Other Owners who are Independent Third Parties. Mr. Xing is a substantial shareholder of Luenshan, a non-wholly owned subsidiary of the Company, and is therefore a connected person of the Company. Based on Mr. Xing's shareholding in the Seller, the Seller is an associate of Mr. Xing and is therefore a connected person of the Company.

## **Assets to be acquired**

- Sale Shares: the entire issued shares of each of the BVI Companies comprising: (i) 1 share of US\$1 each in the issued capital of Company A, being the entire issued share capital of Company A; (ii) 1 share of US\$1 each in the issued capital of Company B, being the entire issued share capital of Company B; and (iii) 1 share of US\$1 each in the issued capital of Company C, being the entire issued share capital of Company C
- Sale Loans:
- (i) the unsecured shareholder's loan advanced by the Seller to Company A. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US\$20,199,501 (approximately HK\$157,556,000);
  - (ii) the unsecured shareholder's loan advanced by the Seller to Company B. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US\$30,299,252 (approximately HK\$236,334,000);and
  - (iii) the unsecured shareholder's loan advanced by the Seller to Company C and the amount due from Company C to the Seller in the current account of Company C. As at the date of the Agreement, the outstanding principal of the shareholder's loan amounted to US\$14,214,463.80 (approximately HK\$110,873,000) and the amount due to the Seller from Company C (non-interest bearing) amounted to US\$80,750,000 (approximately HK\$629,850,000)

## **Consideration**

The consideration for the acquisition of the Sale Shares and the Sale Loans of HK\$10,530,000,000 (subject to adjustment) was arrived at after arm's length negotiations between the Buyer and the Seller and represents a discount of approximately 10.84% to the sum of (1) the fair value of RMB4,308,525,000 (approximately HK\$4,797,370,000) attributable to 87.75% shareholders' equity of PRC Subsidiary A as at 30 April 2008; (2) the fair value of RMB2,964,000,000 (approximately HK\$3,300,295,000) attributable to 65% shareholders' equity of PRC Subsidiary B as at 30 April 2008;and (3) the fair value of RMB3,334,500,000 (approximately HK\$3,712,832,000) attributable to 95% shareholders' equity of PRC Subsidiary C as at 30 April 2008 of RMB10,607,025,000 (approximately HK\$11,810,497,000). The business valuations are valued by Greater China Appraisal Limited based on the market transaction method which determines the fair value of an asset by reference to the transaction prices, or valuation multiples implicit in the transaction prices, of identical or similar assets in the market. Greater China Appraisal Limited and its ultimate beneficial owners are Independent Third Parties.

Subject to the fulfillment (or waiver, if applicable) of the conditions precedent to Completion:

- (a) on the Completion Date, the Buyer shall pay HK\$3,860,000,000 (the "Initial Cash Consideration"), being 36.657% of the Consideration, in cash,
  - (i) of which an amount equal to the DB Indebtedness shall be applied to discharge the DB Indebtedness and release of all encumbrances created pursuant to the DB Note; and
  - (ii) the remaining Initial Cash Consideration, if any, shall be paid to the Seller;

- (b) on the Completion Date, the Buyer shall pay HK\$500,000,000 (the “Escrow Cash”), being 4.748% of the Consideration, in cash in escrow subject to the terms and conditions of the Completion Escrow Letter and the Post Completion Escrow Letter;
- (c) on the Completion Date, the Buyer shall pay HK\$5,670,000,000, being 53.846% of the Consideration, to the Seller to be satisfied by procuring the Company allotting and issuing 1,260,000,000 Consideration Shares credited as fully paid in the capital of the Company at the Issue Price to the respective nominees of Mr. Xing, Mr. Wong and the Other Owners in proportion to the effective interests of Mr. Xing, Mr. Wong and the Other Owners in the Seller (or the other allottees in such proportion to be notified by the Seller to the Buyer no later than 18 days from the date of this announcement). The Seller has undertaken to the Buyer that, from the date of the Agreement up to the Completion Date, all the allottees of the Consideration Shares (other than Mr. Xing, Mr. Wong and/or their associates) should not be connected persons of the Company and that Mr. Xing and/or his associates should be allotted no less than 50.7809% of the Consideration Shares. The Consideration Shares shall be placed in escrow pursuant to the terms and conditions of the Post Completion Escrow Letter and shall be subject to the lockup restrictions as more particularly described in the section headed “Lock-up Arrangements” below. Please also refer to the section headed “Arrangements of Mr. Xing’s Consideration Shares” for details; and
- (d) within five Business Days from the expiry of the six months period from the Completion Date, the Buyer shall pay HK\$500,000,000 (the “Guarantee Cash”), being 4.748% of the Consideration, in cash to the Seller, subject to adjustment, if any, as more particularly described in the section headed “Settlement of the Escrow Cash and the Guarantee Cash” below.

It is expected that the funding of HK\$4,860,000,000 will be financed by placing of new Shares, bank financing and the Company’s internal financial resources. Further announcement(s) will be made by the Company as and when necessary.

### **Settlement of the Escrow Cash and the Guarantee Cash**

Subject to the Completion, within five Business Days from the issuance of the Completion Account, the Escrow Cash shall be deducted (if required) according to the following terms and conditions and the remaining amount of the Escrow Cash (if any) shall be released to the Seller or the Buyer (as the case may be):

1. The amount to be deducted from the Escrow Cash (the “Deductible Amount”) shall be the sum of (i) Mr. Xing’s Net Indebtedness as at the Completion Date based on the Completion Account; (ii) if the aggregate of the net assets value of the Target Group as at the Completion Date based on the Completion Account is lower than the 2007 Net Assets Value (disregarding the effect, if any, arising from the dividends payment as more particularly described in the section headed “Special Dividends” below), such difference; (iii) if Completion takes place after 31 July 2008 and the amount of dividends paid by the BVI Companies and the PRC Companies for the six months ended 30 June 2008 based on the management accounts exceeds the distributable profits of the BVI Companies and the PRC Companies based on the Completion Accounts, such difference; and (iv) the outstanding determined claim amounts owed to the Buyer (after deducting the outstanding determined claim amounts owed to the Seller (if any)).
2. In the event that the Deductible Amount is less than HK\$500,000,000, the Buyer and the Seller shall procure the release of the Escrow Cash (together with the accrued interest) to the Seller. The Deductible Amount shall be deducted from the Guarantee Cash (such deducted Guarantee Cash, the “New Guarantee Cash”). Mr. Xing’s Net Indebtedness as at the Completion Date (if any) shall be deemed to be fully settled accordingly. Within five Business Days from the expiry of the six months period from the Completion Date, the Buyer shall deduct from the New Guarantee Cash the outstanding determined claim amounts owed to the Buyer (if any) as at the expiry of six months from the Completion Date and pay the remaining balance of the New

Guarantee Cash (if any) to the Seller.

3. In the event that the Deductible Amount is equal to or more than HK\$500,000,000 but less than HK\$1,000,000,000, the Buyer shall not be required to pay the Guarantee Cash to the Seller but the Buyer shall release from the Escrow Cash an amount equal to the difference between HK\$1,000,000,000 and the Deductible Amount, together with the accrued interest of such amount, to the Seller. The balance of the Escrow Cash together with the interest accrued thereon shall be returned to the Buyer. Mr. Xing's Net Indebtedness as at the Completion Date, if any, shall be deemed to be fully settled accordingly.
4. In the event that the Deductible Amount is more than HK\$1,000,000,000, the Buyer shall not be required to pay the Guarantee Cash to the Seller and the Escrow Cash together with the interest accrued thereon shall be returned to the Buyer. Mr. Xing shall pay to the Buyer an amount equal to the remaining balance of the Deductible Amount minus HK\$1,000,000,000 within one month from the issuance of the Completion Account. Mr. Xing's Net Indebtedness shall be deemed to be fully settled accordingly.

### **Arrangements of Mr. Xing's Consideration Shares**

1. In the event that there are no outstanding claims from the Buyer as of the expiry of the first anniversary of the Completion Date, Mr. Xing's Consideration Shares shall be released to Mr. Xing within five Business Days from the first anniversary of the Completion Date.
2. In the event that there are any outstanding determined claim amounts owed to the Buyer (after deducting the outstanding determined claim amounts owed to the Seller (if any)) during the period from the finalization of the Completion Account up to the first anniversary of the Completion Date and the Guarantee Cash is not sufficient to set off against such determined claim amounts, the Seller and Mr. Xing shall pay the outstanding determined claim amounts to the Buyer in cash. In the event that the Seller and Mr. Xing cannot pay such outstanding determined claim amounts in cash, at the request of Mr. Xing or the Buyer, Mr. Xing's Consideration Shares shall be released from escrow (the "Mr. Xing's Returned Consideration Shares") on the condition that Mr. Xing shall do anything appropriate to cooperate with the Buyer to dispose of all or part of the Mr. Xing's Returned Consideration Shares at a reasonable market price and apply the proceeds from such disposal to settle such determined claim amounts. The remaining Mr. Xing's Consideration Shares (if any) shall continue to be held in escrow.
3. In the event that there are claims from the Buyer as of the expiry of the first anniversary of the Completion Date but such claim amounts (after deducting therefrom the outstanding determined claim amounts owed to the Seller (if any)) has not been determined, certain Mr. Xing's Consideration Shares with a value calculated based on the higher of the weighted average of the closing price of the Shares on the 30 consecutive trading days prior to the expiry of the first anniversary of the Completion Date or the Issue Price (subject to adjustments in relation to any share split or share consolidation) equal to such relevant claim amount (the, "Mr. Xing's Deducted Consideration Shares") shall continue to be held in escrow and the remaining balance of Mr. Xing's Consideration Shares shall be released to Mr. Xing:
  - (a) in the event that the Buyer and the Seller cannot determine such claim amount or the Buyer does not proceed to arbitration in relation thereto within three months from the expiry of the first anniversary of the Completion Date, Mr. Xing's Deducted Consideration Shares shall be released to Mr. Xing on the expiry of the three months period as mentioned above;
  - (b) in the event that the Buyer and the Seller proceed to arbitration within three months from the expiry of the first anniversary of the Completion Date, Mr. Xing's Deducted Consideration Shares shall continue to be held in escrow until the ruling of the arbitration having been finalized. In the event that the ruling concludes that no amount shall be paid by the Seller, Mr. Xing's Deducted Consideration Shares shall be released to Mr. Xing within five Business Days from the date of the ruling;

- (c) in the event that the ruling concludes that the Seller shall pay the claim amounts to the Buyer and the Seller does not pay such claim amounts to the Buyer within one month from the date of the ruling, Mr. Xing shall take all appropriate actions to cooperate with the Buyer to dispose of all or part of the Mr. Xing's Deducted Consideration Shares at a reasonable market price and apply the proceeds from such disposal to settle such claim amounts. In the event that the proceeds from such disposal is not sufficient to set off against such claim amounts, Mr. Xing shall settle the outstanding claim amounts within one month from the date of the ruling; and
- (d) in the event that the Seller and Mr. Xing can settle the arbitration claim amounts without disposal of all the Mr. Xing's Deducted Consideration Shares, the remaining Mr. Xing's Deducted Consideration Shares shall be released to Mr. Xing.

### **Consideration Shares**

The issue price for the Consideration Shares of HK\$4.5 per Consideration Share has been determined with reference to the closing price of the Share as quoted on the Stock Exchange on 31 January 2008, being the date of the memorandum of understanding entered into between the Company and the Seller in relation to the Acquisition and represents:-

- (a) a discount of approximately 0.66% to the closing price of HK\$4.53 per Share as quoted on the Stock Exchange on 9 May 2008 (being the last trading day in the Shares prior to the suspension of trading in the Shares pending the issue of this announcement);
- (b) a discount of approximately 3.27% to the closing price of HK\$4.652 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including 9 May 2008;
- (c) a premium of approximately 3.97% over the closing price of HK\$4.328 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including 9 May 2008; and
- (d) approximately 13.76 times over the audited consolidated net asset value per Share of approximately HK\$0.327 as at 31 December 2007.

Based on 2,439,555,352 Shares in issue as at the date of this announcement, the 1,260,000,000 Consideration Shares represent approximately 51.65% of the existing issued share capital of the Company and approximately 34.06% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. Please refer to the section headed "Lock-up Arrangements" for the lock-up restrictions on the Consideration Shares.

The Consideration Shares will be issued under a special mandate to be approved in the EGM. Application will be made by the Company to the Listing Committee of the Stock Exchange for the granting of the listing of and permission to deal in the Consideration Shares.

### **Lock-up Arrangements**

So long as the Buyer, the Company and Mr. Wong are not in breach of certain obligations under the Agreement, the Consideration Shares shall be subject to the lock-up restrictions as follows:

#### ***In respect of Mr. Xing***

- (A) From the Completion Date up to and including the first anniversary of the Completion Date (the "One Year Lock-up Period"), without the prior written consent of the Seller and the Company, Mr. Xing shall not, directly or indirectly, and shall procure that none of his associates or companies controlled by him shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of any of

Mr. Xing's Consideration Shares or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Mr. Xing's Consideration Shares. However, certain number of Mr. Xing's Deducted Consideration Shares shall be returned to Mr. Xing according to section headed "Arrangement of Mr. Xing's Consideration Shares" above.

(B) In the event that there are relevant claims from the Buyer as of the first anniversary of the Completion Date, the One Year Lock-up Period shall be extended and applicable to Mr. Xing's Deduct Consideration Shares as mentioned in the section headed "Arrangements of Mr. Xing's Consideration Shares" above and certain number of the Mr. Xing's Deducted Consideration Shares shall be returned to Mr. Xing to handle (including disposal of) and use the proceeds of such disposal to settle the outstanding determined claim amounts.

***In respect of each of the allottees of the Consideration Shares (other than Mr. Xing)***

From the Completion Date up to and including the date falling six months from the Completion Date, without the prior written consent of the Seller and the Company, each of the allottees and its ultimate owners shall not, directly or indirectly, and shall procure that none of his associates or companies controlled by him shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of any of the Consideration Shares to be allotted to him under the Agreement or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Consideration Shares.

**Special Dividends**

***Dividends for the year ended 31 December 2007***

The parties to the Agreement agreed that the Seller shall be solely entitled to share, declare and distribute the shareholder's attributable profits of the BVI Companies for the year ended 31 December 2007 (if any). The Seller and Mr. Xing jointly and severally guarantee to the Buyer that the shareholder's attributable profits of the BVI Companies for the year ended 31 December 2007 shall be used to set off against Mr. Xing's Net Indebtedness.

***Dividends for the first half year of 2008***

In the event that the Completion takes place prior to 31 July 2008, the Buyer shall be entitled to or shall bear the shareholder's attributable profits /losses (as the case may be) of the BVI Companies and the PRC Subsidiaries and shall be entitled to the dividends declared and distributed by the BVI Companies and the PRC Subsidiaries since 1 January 2008.

In the event that the Completion takes place after 31 July 2008, the Seller shall be entitled to or shall bear the shareholder's attributable profits/losses (as the case may be) of the BVI Companies and the PRC Subsidiaries for period from 1 January 2008 to 30 June 2008 but the dividends for the first half year of 2008 of the BVI Companies and the PRC Subsidiaries shall only be declared and distributed after 31 July 2008. The Seller and Mr. Xing jointly and severally guarantee to the Buyer that the dividends for the first half year of 2008 of the BVI Companies and the PRC Subsidiaries for Mr. Xing and his associates shall be used to set off against Mr. Xing's Net Indebtedness.

***Special dividends of not more than HK\$20,000,000***

Irrespective of whether the Completion takes place before or after 31 July 2008, the BVI Companies shall distribute special dividends in aggregate of not more than HK\$20,000,000 to the Seller for its working capital purpose.

## **Guarantee from the Company and Mr. Wong**

1. The Company and Mr. Wong, collectively, individually, irrevocably and unconditionally, guarantee to the Seller that the Buyer will perform its obligations under the Agreement and the transactions contemplated thereunder on a timely basis.
2. The Company and Mr. Wong, unconditionally and irrevocably, guarantee the Seller that the Consideration Shares to be issued to the Seller (other than Mr. Wong) by the Company on the Completion Date shall not be less than 25% of the fully diluted issued share capital of the Company (from time to time) as enlarged by the Consideration Shares on the date of allotment (the "Minimum Shareholding").
3. If the Consideration Shares are diluted to less than the Minimum Shareholding as a result of equity capital fund raising of the Company for the settlement of the loans, funding requirements and/or the cash consideration under the Agreement, Mr. Wong undertakes to indemnify the Seller for the shortfall of the Minimum Shareholding in accordance with the formula below.
4. The Seller has the right to request Mr. Wong to use cash or Shares as compensation, in accordance with the following formulae:

$$X = (A \times 25\%) - B$$

A = the total fully diluted issued share capital of the Company (from time to time)

B = the number of Consideration Shares

X = compensation payable equal to the number of Shares to be compensated in order to restore the Minimum Shareholding (the "Compensation Shares")

If the Seller elects cash as compensation, (a) Mr. Wong shall base on the weighted average of the closing price of the Shares for the last 30 consecutive trading days prior to the date (the "Compensation Date") on which the shareholding of the Consideration Shares drops below the Minimum Shareholding, or the Issue Price (subject to adjustments in relation to any share split or share consolidation), whichever is higher; (b) and multiply it by the number of the Compensation Shares.

Subject to the compliance with the applicable laws, if the Seller elects Shares as compensation, Mr. Wong shall compensate the number of the Compensation Shares on the Compensation Date by way of Shares.

Mr. Wong shall settle the compensation within three months from the Compensation Date.

5. If the Seller requests Mr. Wong to use Shares as compensation resulting in the Seller and the parties acting in concert with it, including Mr. Wong and his associates, an obligation to make an offer for all the Shares (in accordance with the Takeovers Code), the Seller and Mr. Xing shall be responsible for all the expenses incurred by the Buyer, the Company and/ or Mr. Wong in relation to such offer.

Pursuant to the undertaking dated 19 May 2008 from Mr. Xing and the Seller, Mr. Xing and the Seller undertake to Mr. Wong and the Company that the Seller will not elect Shares as compensation if such compensation arrangement will result in any change in control (as defined in the Takeovers Code) implications and/or any obligations on the Seller, Mr. Xing and their respective parties acting in concert with them and/or Mr. Wong and any parties acting in concert with him to make a general offer under the Takeovers Code. Accordingly, Mr. Wong will continue to be the single largest Shareholder after the compensation arrangement.

## Undertakings

The Seller and Mr. Xing undertake to the Buyer, inter alia, the followings:

1. The total capital expenditures and the total liabilities (including, but not limited to, the guarantees, the claims or other contingent liabilities but not including the trading liabilities resulting from the ordinary course of business) of the Target Group up to the Completion Date shall not be more than RMB330,000,000 (approximately HK\$367,442,000) and RMB650,000,000 (approximately HK\$723,749,000) respectively;
2. Mr. Xing's Indebtedness shall not be more than RMB800,000,000 (approximately HK\$890,768,000) (including Mr. Xing and/or his associates owed to the Target Group amounted to RMB480,000,000 (approximately HK\$534,461,000) and the current account balance of Mr. Xing and/or his associates and the Target Group resulting from the normal business transactions amounted to RMB320,000,000 (approximately HK\$356,307,000)); and
3. The Seller shall provide the name list of the allottees in proportion for the allotment of the Consideration Shares no later than 18 days from the date of this announcement. The Seller also undertakes to the Buyer that (i) Mr. Xing and/or his associates should be allotted no less than 50.7809% of the Consideration Shares; (ii) from the date of the Agreement up to the Completion Date, all the allottees of the Consideration Shares (other than Mr. Xing, Mr. Wong and/or their associates) should not be connected persons of the Company and (iii) all allottees and their ultimate owners shall sign the lock up agreement.

The Buyer undertakes to the Seller and Mr. Xing that the total capital expenditures and the total liabilities (including, but not limited to, the guarantees, the claims or other contingent liabilities but not including (a) the trading liabilities resulting from the ordinary course of business and (b) capital expenditures and liabilities arising from the Agreement and the transactions contemplated thereunder) of the Group up to the Completion Date shall not more than HK\$500,000,000 and HK\$750,000,000 respectively.

## Conditions

Completion is subject to, inter alia, fulfillment or, if applicable, waiver of the following conditions on or before the Long Stop Date:

- (i) all consents and approvals of, notices to and filings or registrations with any government authority or any other person required in connection with the entering into and performance of the terms of the Agreement, the other transaction documents and the transactions contemplated hereby and thereby pursuant to any applicable laws effective as of the Completion Date, or pursuant to any contract binding on the Seller and Mr. Xing (or any of its direct and indirect owners including the allottees) or any member of the Target Group shall have been obtained or made;
- (ii) all consents and approvals of, notices to and filings or registrations with any government authority or any other person required in connection with the entering into and performance of the terms of the Agreement, the other transaction documents and the transactions contemplated hereby and thereby pursuant to any applicable laws effective as of the Completion Date, or pursuant to any contract binding on the Buyer, Mr. Wong and the Company or its subsidiaries shall have been obtained or made;
- (iii) there having been since the date of the Agreement, (i) no material adverse change; and (ii) no change in any applicable laws in any of the jurisdictions in which any member of the Target Group conducts business that would result in a material adverse change;
- (iv) there having been since the date of the Agreement, (i) no material adverse change; and (ii) no change in any applicable laws in any of the jurisdictions in which a member of the Group does

- business that would result in a material adverse change;
- (v) the entering into of the Completion Escrow Letter;
  - (vi) the entering into of the Post Completion Escrow Letter;
  - (vii) the Acquisition and the settlement of part of the Consideration by issuing of the Consideration Shares will not trigger any obligations on Mr. Wong and parties acting in concert with him to make a general offer under Takeovers Code;
  - (viii) the Acquisition and the settlement of part of the Consideration by issuing of the Consideration Shares will not trigger any obligations on the Seller, Mr. Xing and their respective parties acting in concert with them to make a general offer under the Takeovers Code;
  - (ix) the Stock Exchange will not indicate that the Acquisition and the transactions contemplated hereunder will be deemed as reverse takeover under Rule 14.06(b) of the Listing Rules;
  - (x) the Company having obtained a debt financing from the financial institution(s) and/or raised funds in the form of issuing new Shares for an aggregate sum of not less than HK\$4,360,000,000 for payment of the Initial Cash Consideration and the Escrow Cash;
  - (xi) the obtaining by the Buyer and the Company of all necessary consents, authorizations and approvals (or, as the case may be, the relevant waiver) and the completion of all necessary filings or registration of any kind by the Buyer and the Company in connection with the entering into and performance of the terms of the Agreement, the other transaction documents and the transactions contemplated hereby and thereby which may be required under the Listing Rules, the Securities and Futures Ordinance and any other applicable laws (including but not limited to the approval of the Independent Shareholders, as required under the Listing Rules); and
  - (xii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares (and such listing and permission not subsequently revoked prior to the delivery of the definitive share certificates representing the Consideration Shares).

Conditions (i) and (iii) can be waived by the Buyer and Conditions (ii) and (iv) can be waived by the Seller on or before the Long Stop Date.

### **Completion**

Completion shall take place on the fifth Business Day or other mutually agreeable date from the date on which (not being later than the Long Stop Date) the last outstanding condition (other than, among other things, Condition (x)) of the Agreement is satisfied or, if applicable, waived.

If Completion does not take place on or before the Long Stop Date, the Agreement shall terminate and each party's further rights and obligations cease immediately without affecting a party's then accrued rights and obligations.

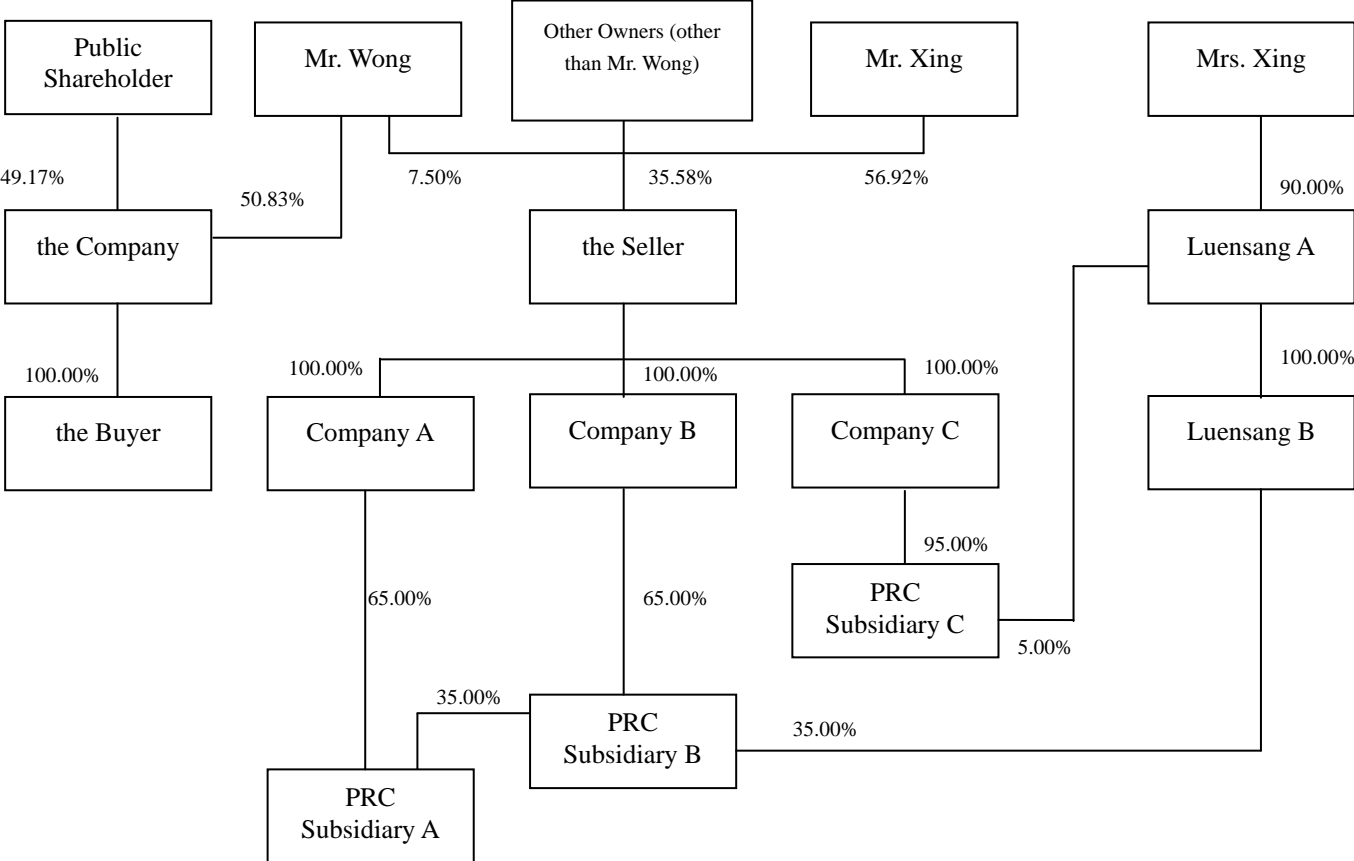
### **GUARANTEE LETTER BETWEEN MR. XING AND THE BUYER**

Mr. Xing also executed a personal guarantee on 9 May 2008 in favour of the Buyer, pursuant to which, Mr. Xing unconditionally and irrevocably guarantees to the Buyer, inter alia, that the Seller shall fulfill its obligations on the Agreement and the transactions contemplated thereunder and Mr. Xing shall settle any demanded outstanding amount owed by the Seller to the Buyer under the Agreement and the transactions contemplated thereunder.

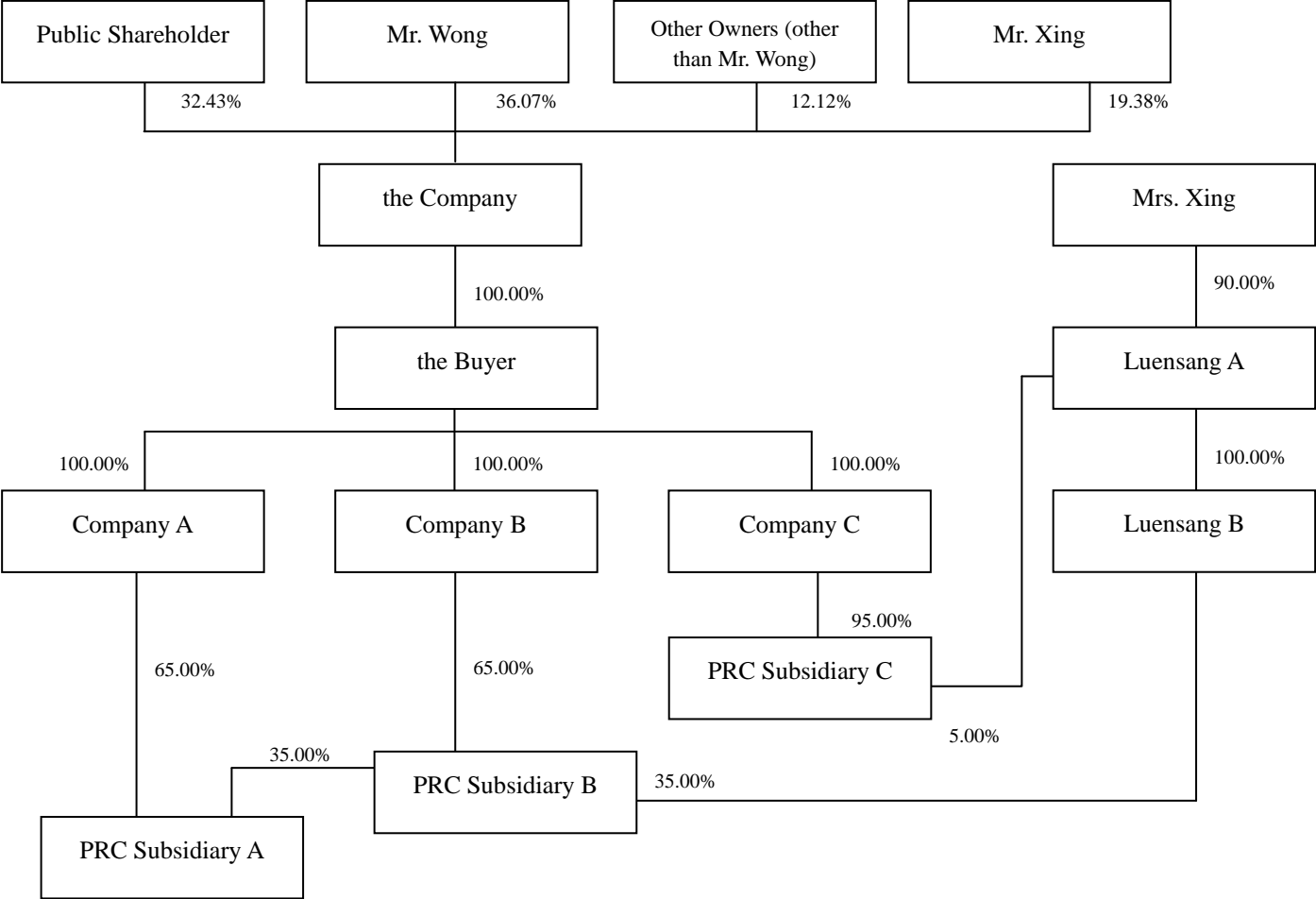
**SHAREHOLDING STRUCTURE**

The diagram below shows the current corporate and shareholding structure of the Group and the Target Group:

**Before the Acquisition (showing the indirect effective interests of Mr. Wong, Mr. Xing and Other Owners in the Seller)**



**After the Acquisition (assuming that (i) Mr. Xing will take up 56.9195% of the Consideration Shares which is in proportion to his effective interest in the Seller and (ii) the issued share capital of the Company remain unchanged from the date of the Agreement up to Completion (save for the Consideration Shares) and showing the indirect effective interests of Mr. Wong, Mr. Xing and the Other Owners in the Seller)**



## SHAREHOLDING STRUCTURES BEFORE AND AFTER THE ACQUISITION

The respective shareholding structures of the Company immediately before and after the Acquisition are set out below:

Name of Shareholders	Existing Shareholding		Shareholding after the Acquisition (assuming that (i) Mr. Xing will take up 56.9195% of the Consideration Shares which is in proportion to his effective interest in the Seller and (ii) the issued share capital of the Company remain unchanged from the date of the Agreement up to Completion (save for the Consideration Shares))	
	Number of Shares	%	Number of Shares	%
Mr. Wong ( <i>Note 1</i> )	1,239,950,000	50.83	1,334,450,000	36.07
Mr. Xing ( <i>Note 2</i> )	-	-	717,185,700	19.38
Other Owners (other than Mr. Wong) ( <i>Note 2</i> )	-	-	448,314,300	12.12
Public shareholders	1,199,605,352	49.17	1,199,605,352	32.43
<b>Total</b>	<b>2,439,555,352</b>	<b>100.00</b>	<b>3,699,555,352</b>	<b>100.00</b>

*Notes:*

1. *Mr. Wong holds 90,750,000 Shares and is the beneficial owner of the entire issued share capital of China Merit Limited, which owns 1,149,200,000 Shares. Mr. Wong would receive 94,500,000 Consideration Shares representing 7.5% of the total Consideration Shares.*
2. *It is one of the Conditions that the Company has to obtain a debt financing from the financial institution(s) and/or raise funds in the form of issuing new Shares for an aggregate sum of not less than HK\$4,360,000,000 for payment of the Initial Cash Consideration and the Escrow Cash. It is expected that the aggregate shareholding of Mr. Xing and Other Owners in the Company will be below 30% of the issued share capital of the Company at Completion, as enlarged by the Consideration Shares and the new Shares to be issued, if any, pursuant to any fund raising exercises for the Acquisition. Please also note that it is one of the Conditions that the Acquisition and the settlement of part of the Consideration by issuing Consideration Shares will not trigger any obligations on the part of the Seller, Mr. Xing, the Buyer, Mr. Wong and their respective parties acting in concert with them to make a general offer under the Takeovers Code.*

## INFORMATION OF THE TARGET GROUP

The Seller is the sole shareholder of the Sale Shares which comprise the entire issued share capital of each of the BVI Companies. The original purchase cost of the Target Group amounted to approximately RMB1,222,475,000 (approximately HK\$1,361,177,000), being the sum of the attributable registered capital of each of the PRC Subsidiaries.

### Mr. Xing

Mr. Xing is the controlling shareholder of the Seller.

## Company A and PRC Subsidiary A

Company A is a company incorporated in BVI with limited liability on 6 December 2004. As at the date of this announcement, Company A has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 1 share of Company A were issued and allotted and are fully paid or credited as fully paid. The principal asset of Company A is its holding of 65% equity interest in PRC Subsidiary A which is engaged in coking coal mining and production and sales of raw and clean coking coal in the PRC.

PRC Subsidiary A was a state-owned company established in the PRC on 8 July 1980 and transformed into a sino-foreign joint venture company established in the PRC with limited liability on 12 September 2005. The operating period of PRC Subsidiary A is 30 years for the period from 15 September 2005 to 12 September 2035. The registered capital of PRC Subsidiary A was RMB250,000,000 (approximately HK\$278,365,000) (which has been fully paid up). As at the date of this announcement, PRC Subsidiary A is beneficially owned as to 65% by Company A and as to 35% owned by PRC Subsidiary B. The fair value of 100% shareholders' equities of PRC Subsidiary A was valued by Greater China Appraisal Limited at the amount of RMB4,910,000,000 (approximately HK\$5,467,089,000) as at 30 April 2008.

PRC Subsidiary A operates Mine A which is located at Liulin in Shanxi Province in the PRC and commenced production in 1968. Coking coal exploited from Mine A is hard coking coal. The mining right area extends over 11.6 sq. km. and is located 6 km at the south of Liulin City. Vehicular access to Mine A is provided by an unpaved traffic road. The current approved output capacity and designed output capacity are 1.2 Mtpa and 2.1 Mtpa respectively.

Construction of the coal preparation plant of Mine A began in June 2001 and the facility was put into operation in October 2002. The plant (215 tonnes per hour) is computer controlled with the ability to automatically adjust for product ash requirements. Plant circuitry includes dense media cyclones and froth flotation and has a processing capacity of 0.9 Mt per annum to 1.2 Mt per annum with processing yield of 71% depending on operating schedule.

Based on the unaudited combined management account of Company A and PRC Subsidiary A for the three years ended 31 December 2007 prepared under Hong Kong Financial Reporting Standards using the merger method of accounting,

(RMB'000)	For the year ended 31 December		
	2005	2006	2007
<b>Income statement summary</b>			
Turnover	556,280	567,305	705,531
Gross profit	343,146	337,738	445,930
Operating profit	259,963	363,080	361,751
Profit before taxation	191,043	277,984	322,800
Profit after taxation	116,170	244,228	322,800
Profit attributable to shareholders of Company A	75,510	153,614	203,258
<b>Balance sheet summary</b>			
Inventories	17,137	29,779	23,966
Trade and bill receivables	49,364	94,008	199,671
Total assets	1,503,443	1,381,009	1,538,248
Borrowings (include short-term and long-term)	179,375	334,886	112,455
Total liabilities	1,214,881	859,836	852,031
Net assets	288,562	521,173	686,217

## Company B and PRC Subsidiary B

Company B is a company incorporated in BVI with limited liability on 5 January 2005. As at the date of this announcement, Company B has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 1 share of Company B were issued and allotted and are fully paid or credited as fully paid. The principal asset of Company B is its holding of 65% equity interest in PRC Subsidiary B which is engaged in coking coal mining and production and sales of raw coking coal in the PRC.

PRC Subsidiary B was a PRC company established in the PRC on 10 May 2001 and transformed into a sino-foreign joint venture company established in the PRC with limited liability on 5 September 2005. The operating period of PRC Subsidiary B is 30 years for the period from 16 September 2005 to 16 September 2035. The registered capital of PRC Subsidiary B was RMB374,000,000 (approximately HK\$416,434,000) (which has been fully paid up). As at the date of this announcement, PRC Subsidiary B is beneficially owned as to 65% by Company B and as to 35% owned by Luensang B. The fair value of 100% shareholders' equities of PRC Subsidiary B was valued by Greater China Appraisal Limited at the amount of RMB4,560,000,000 (approximately HK\$5,077,378,000) as at 30 April 2008.

PRC Subsidiary B operates Mine B which is located at Liulin in Shanxi Province in the PRC and commenced production in 1996. Coking coal exploited from Mine B is hard coke coal. The mining right area is located 14 km south of Liulin city core and encompasses about 6.35 sq. km. Access is via unpaved country road. The Xiaoliu Railway station in Liulin City serves the mine for rail shipments on the Liulin – Shilou line. The current approved output capacity and designed output capacity are 1.2 Mtpa and 2.1 Mtpa respectively. A new coke coal preparation plant adjacent to the mining site with a designed processed coke coal output capacity of 2.1 Mtpa is currently under construction and is scheduled for completion in first quarter of 2009. .

Based on the unaudited combined management account of Company B and PRC Subsidiary B for the three years ended 31 December 2007 prepared under Hong Kong Financial Reporting Standards using the merger method of accounting,

(RMB'000)	For the year ended December 31		
	2005	2006	2007
<b>Income statement summary</b>			
Turnover	539,211	367,456	534,088
Gross profit	344,330	267,485	371,729
Operating profit	228,140	215,832	324,512
Profit before taxation	123,766	273,209	407,005
Profit after taxation	62,573	242,231	407,005
Profit attributable to shareholders of Company B	41,023	149,749	254,724
<b>Balance sheet summary</b>			
Inventories	13,172	12,886	20,521
Trade and bill receivables	8,949	181,739	341,740
Total assets	714,187	1,317,881	1,694,667
Borrowings (include short-term and long-term)	31,000	60,003	46,003
Total liabilities	405,015	759,889	1,144,235
Net assets	309,172	557,992	550,432

## Company C and PRC Subsidiary C

Company C is a company incorporated in BVI with limited liability on 6 January 2005. As at the date of this announcement, Company C has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 1 share of Company C were issued and allotted and are fully paid or credited as fully paid. The principal asset of Company C is its holding of 95% equity interest in PRC Subsidiary C which is engaged in coking coal mining and production and sales of raw coking coal in the PRC.

PRC Subsidiary C was a PRC company established in the PRC on 11 March 2000 and transformed into a sino-foreign joint venture company established in the PRC with limited liability on 5 September 2005. The operating period of PRC Subsidiary C is 30 years for the period from 16 September 2005 to 16 September 2035. The registered capital of PRC Subsidiary C was RMB800,000,000 (approximately HK\$890,768,000) (which has been fully paid up). As at the date of this announcement, PRC Subsidiary C is beneficially owned as to 95% by Company C and as to 5% owned by Luensang A. The fair value of 100% shareholders' equities of PRC Subsidiary C was valued by Greater China Appraisal Limited at the amount of RMB3,510,000,000 (approximately HK\$3,908,245,000) as at 30 April 2008

PRC Subsidiary C operates Mine C which located at Liulin in Shanxi Province in the PRC and commenced production in 1988. Coking coal exploited from Mine C is semi hard coke coal. The mining right area covers over 13.9 sq.km. and is located 16 km southwest of Liulin City. Vehicular access to the mine is via unpaved country road. The current approved output capacity and designed output capacity are 1.2 Mtpa and 2.1 Mtpa respectively. As confirmed by PRC Subsidiary C, it is planning to establish a coal preparation plant adjacent to Mine C and the plant is expected to be completed and operated by June 2009 with annual capacity of 2.1 Mtpa.

Based on the unaudited combined management account of Company C and PRC Subsidiary C for the three year ended 31 December 2007 prepared under Hong Kong Financial Reporting Standards using the merger method of accounting,

(RMB'000)	For the year ended December 31		
	2005	2006	2007
<b>Income statement summary</b>			
Turnover	92,840	309,527	520,869
Gross profit	38,473	234,726	388,671
Operating profit	14,599	208,729	348,098
Profit before taxation	14,380	197,220	331,800
Profit after taxation	9,303	174,031	331,800
Profit attributable to shareholders of Company C	8,838	165,329	314,552
<b>Balance sheet summary</b>			
Inventories	7,078	12,382	19,513
Trade and bill receivables	13,261	106,850	75,450
Total assets	176,762	1,225,290	1,519,599
Borrowings (include short-term and long-term)	14,210	12,291	11,131
Total liabilities	122,650	979,104	911,215
Net assets	54,112	246,186	608,384

Upon Completion, the BVI Companies will become wholly owned subsidiaries of the Company and the investment of the Group in the Target Group will be consolidated in the financial statements of the Group.

## **INFORMATION OF THE MINES**

### ***Exploration method and facilities***

As mentioned in the Technical Review Report, the Mines use steep angle inclines and vertical shafts to access the seams for mining activities. Secondary air shafts (intake or return) are utilized in mines where workings have extended a sufficient distance from the initial access openings to warrant their construction. Generally, workers enter the under ground mine workings at the main surface complexes. Long wall mining is the primary coal production method in the Mines. Long wall technology is the preferred Chinese method of coal production deriving from a long central government emphasis on maximizing reserve recovery. Long wall methods are generally higher in recovery than any other method found in the underground coal industry.

Surface facilities at the Mines are well-established complexes, providing accommodations for all aspects of the mining operation including administration and mine manager offices, materials and parts storage, repair shops, change rooms, bathhouse areas, conference rooms, engineering facilities, mine monitoring and communications station, etc. The Mines are remote from major population centers, and off-site workers commute to work by a variety of means including buses, personal vehicles, etc.

### ***Coal preparation facility***

It is planned to construct a 500 tonnes per hour coal preparation facility employing heavy media circuitry depending on market conditions. Nominal plant processing capacity will be 3.0 Mt per annum based on 6,000 processing hours annually. Annual clean coal output is projected at 2.1 Mt per annum assuming 70% yield from the plant. It is expected that 40% of raw coal will be supplied by Mine C while the rest will be purchased from nearby mines.

### ***Safety***

The standard measure used in the Chinese coal industry to measure and to compare safety performance is the fatality rate (average number of fatalities per 1.0 Mt of raw coal production). From the data provided by the Mines, the Mines did not experience any fatalities in the period 2004 to 2007. Similarly, the Mines report a low number of occurrences of major injuries over the same period.

The Mines follow appropriate standards for the type of hazards expected in the geological settings. The uppermost safety concern is methane gas generation in the coal mines. The Hedong Coal Field is well known for its high methane gas content. With the exception of Mine C (which is classified as a low methane generation mine), the Mines use advanced methane drainage techniques both in development and Long wall mining. These techniques consist of drilling horizontal in-seam bore holes on pattern from the mine openings to drain methane in advance of mining. Methane from these sources is gathered and pumped to storage tanks located on the surface, where the gas is stored for use by the mine complex and/or the local villages. In addition, Mine A and Mine B use a portion of the methane drained from the underground workings for power generation.

## ***Reserves and Outputs***

	<b>Mine A</b>	<b>Mine B</b>	<b>Mine C</b>	<b>Total</b>
<b>Reserves</b>				
In-Place Reserves as at 31 December 2007 (Mt)	63.23	64.18	78.34	205.75
Recoverable Reserves as at 31 December 2007 (Mt) – Proven reserves	11.11	20.78	13.32	45.21
Recoverable Reserves as at 31 December 2007 (Mt) – Probable reserves	35.23	23.02	38.89	97.14
<b>Raw coal output</b>				
Raw coal output in 2005 (Mt)	1.284	0.805	0.433	2.522
Raw coal output in 2006 (Mt)	1.514	1.201	1.425	4.140
Raw coal output in 2007 (Mt)	1.639	1.508	1.936	5.083
<b>Raw coal production capacity (Mtpa)</b>	2.1	2.1	2.1	6.300
<b>Production Cost</b>				
Production Cost in 2005 (RMB/raw tonne)	89.3	98.9	114.0	96.6
Production Cost in 2006 (RMB/raw tonne)	95.1	91.8	67.2	84.5
Production Cost in 2007** (RMB/raw tonne)	101.6	104.9	75.6	92.7
<b>Mine Cash Cost</b>				
Mine Cash Cost* in 2005 (RMB/raw tonne)	60.2	67.0	83.8	66.4
Mine Cash Cost* in 2006 (RMB/raw tonne)	61.9	62.5	37.4	53.6
Mine Cash Cost* in 2007 (RMB/raw tonne)	67.9	74.4	45.1	61.2

*Source: Technical Review Report*

\* *Mine Cash Cost means product cost less (1) production maintenance fee, (2) safety fund and (3) depreciation.*

\*\* *For the year ended 31 December 2007, the production costs of the Mines are composed of: materials: 18.7%, salary: 20.6%, welfare: 2.9%, power and fuel: 4.9%, safety fund: 16.7%, production maintenance fee: 10.8%, sustainable development fund: 16.7%, depreciation: 7.0%, and others: 1.7%.*

## ***Mining rights***

	<b>Mine A</b>	<b>Mine B</b>	<b>Mine C</b>
Mining method	Underground	Underground	Underground
Area (km <sup>2</sup> )	11.6325	6.3491	13.9068
Mining right grant date (month/year)	2/2007	2/2007	2/2007
Mining right expiration date (month/year)	2/2012	2/2012	2/2012

*Source: Technical Review Report*

The Mines are subject to renewal of an existing mining right area upon expiry by the Shanxi Province Land and Resource Bureau. It is typical practice in the PRC or other major coal producing nations for government to extend the term of the mining rights for the economic life of the reserves.

## Quality

The Mines produce high quality, medium volatile coking coals for local, regional and national coking coal markets. Coal qualities in the Hedong Coal Field vary by seam and mine. Mines with seams in the Permian Age Shanxi Formation (Nos. 4 and 5 Seams) are recognized as JM class coking coal mines. Mines operation in the Carboniferous Age Taiyuan Formation (No. 9 Seam), produce lean coking coals recognized as SM class. The No. 4 Seam is recognized throughout the PRC for its superior coking characteristics. Recent testing of the Mines' coals indicate that the test samples from Mine A and Mine B meet the international definition for hard coking coals. Mine C sample test results indicate that its coals meet international definition for semi-hard coking coals. The followings are typical coal quality characteristics for its highest commercial coal grades:

Coal Quality Characteristics	Mine A		Mine B		Mine C
	No. 4 Seam	No. 5 Seam	No. 3 Seam	No. 4 Seam	No. 9 Seam
Moisture (%)	0.9	0.3	0.6	0.7	0.7
Ash (%)	11.3	10.1	6.3	11.0	10.4
Sulfur (total) (%)	0.36	0.85	0.32	0.47	1.65
Volatile Matter (%)	21.6	23.4	21.3	22.4	18.7
Fixed Carbon (%)	68.6	67.0	73.1	68.4	72.1
Calorific Value (Kcal.kg)	7,500	7,200	7,920	7,520	7,540
FSI	7	7	7	7	7
Y (mm)	17	13	9	11	8
Caking Index (G)	86	75	49	77	72

Source: Technical Review Report

The market selling prices of coals of Nos. 3,4,5 Seams (with VAT) and No. 9 Seam (with VAT) in April 2008 were RMB980 per tonne and RMB745 per tonne respectively.

## REASONS FOR THE ACQUISITION

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.

Based on the data of China Coal Resource National Bureau of Statistic of China, coking coal is rare resource both in China and the world. China's steel industry maintains robust rate in recent years. The production of steel has experienced an increasing compounded annual growth rate of over 23.9% in 2003 to 2007. China's coke industry also represents high-speed growth with CAGR of 23.57% from 2003 to 2007. The rapid growth of steel and coke industry causes the strong demand of coking coal. Coking coal resource accounts for less than 10% of total hard coal resource in the world. China's coking coal reserve is 59.8 billion tonnes, being about 27.65% of China's total coal reserve. Shanxi province has the richest coal reserves. The reserve accounts for 59.69% of China's total proven reserve, and it is the main coking coal production base in China. Liulin County is the main coking coal producing area in Shanxi Province and it has highest grade coking coal available in China and the world.

As disclosed in the annual report of the Company for the year ended 31 December 2007, the Company has been reviewing and continuing to review possibilities to acquire in-operation coal mines to strengthen our coal industry investment and has determined to focus its business in Shanxi Province in areas with coal mine and its downward integrations. The Target Group's operations are located in the Liulin Area of Shanxi Province, a geological belt rich in premium hard coking coal. Mine A, Mine B and Mine C have been in active production for 40, 12 and 10 years, respectively, and are profitable and generating stable cash flows. The Acquisition represents a consolidation of the coal mining assets of common shareholders of the Company and the Seller. Upon Completion, the Company expects to benefit from the Target Group's operational expertise and know-how and established sales channels and supporting infrastructure, as well as the enlarged Group's enhanced economies of scale, to

accelerate the future development of the Company and further improve the operational efficiency and competitiveness of the Company and the Target Group’s existing businesses. The Board considers that the terms of the Agreement are normal commercial terms and fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

**GENERAL**

The Agreement was entered into by the parties after trading hours on 9 May 2008. As the applicable percentage ratios for the Acquisition under the Listing Rules are more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. The Seller is effectively owned as to approximately 56.92% by Mr. Xing, 7.50% by Mr. Wong and 35.58% by the Other Owners who are Independent Third Parties. Mr. Xing is a substantial shareholder of Luenshan, a non-wholly owned subsidiary of the Company, and is therefore a connected person of the Company. Based on Mr. Xing’s shareholding in the Seller, the Seller is an associate of Mr. Xing and is therefore a connected person of the Company. As such, the Acquisition also constitutes a connected transaction for the Company under the Listing Rules and is subject to the approval of the Independent Shareholders at the EGM 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 50.83% of the issued share capital of the Company as at the date of this announcement) will be required to abstain from voting at the EGM. The Company will form an independent board committee to advise the Independent Shareholders on the terms of the Agreement and voting in respect of the Acquisition. 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 Acquisition, the valuation report, the Technical Report, the recommendation from the independent board committee, the advice of the independent financial adviser and a notice to convene the EGM, will be despatched to the Shareholders as soon as practicable.

**SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading of the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 13 May 2008 pending the release of this announcement. The Company has applied for resumption of trading of the Shares on the Stock Exchange with effect from 9:30 a.m. on 22 May 2008.

**DEFINITIONS**

- “2007 Net Assets Value”    the aggregate of the consolidated net asset value of each BVI Company as at 31 December 2007 as stated in the consolidated audited financial statements of each of the BVI Companies for the three years ended 31 December 2007, to be issued by Grant Thornton in the form as agreed by Grant Thornton, the Buyer and the Seller
- “Acquisition”                the acquisition of the Sale Shares and the Sale Loans pursuant to the Agreement
- “Agreement”                 the conditional sale and purchase agreement dated 9 May 2008 among the Company, the Buyer, Mr. Wong, the Seller and Mr. Xing, pursuant to which the Buyer agreed to acquire from the Seller the Sale Shares and the Sale Loans
- “associates”                 has the meaning ascribed to in the Listing Rules
- “Board”                        the board of Directors

“BOCI”	BOCI Asia Limited
“BOYD”	an independent coal mine expert namely John T. Boyd Company
“Business Day”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are open for the transaction of normal business
“Buyer”	Jade Green Investments Limited, a company incorporated in BVI with limited liability and is a wholly owned subsidiary of the Company
“BVI”	the British Virgin Islands
“BVI Companies”	Company A, Company B and Company C, and the “BVI Company” means any of them
“Completion”	completion of the Agreement
“Completion Account”	the audited consolidated balance sheet of each of the BVI Companies at the Completion Date and the audited consolidated profit and loss accounts of each of the BVI Companies for the period from 1 January 2008 and ending on the Completion Date to be prepared in accordance with Hong Kong Financial Reporting Standards
“Completion Date”	the date which is five Business Days or other date mutually agreed by the Seller and the Buyer after the date (not being later than the Long Stop Date) on which the last of the conditions of the Agreement to be satisfied or waived
“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
“Company A”	Thechoice Finance Limited, a company incorporated in BVI with limited liability
“Company B”	Worldman Industrial Limited, a company incorporated in BVI with limited liability
“Company C”	Gumpert Industries Limited, a company incorporated in BVI with limited liability
“Completion Escrow Agent” or “DB Trustee”	DB Trustees (Hong Kong) Limited or other trustee to be appointed by the Seller and the Buyer
“Completion Escrow Letter”	an escrow letter to be signed by the Buyer, the Seller, BOCI ,DB Trustees (in the capacity of the trustee of the DB Note and the DB Warrants) and the Completion Escrow Agent prior to Completion in relation to, among other things, the conduct of the Buyer and the Seller at Completion

“Conditions”	the conditions precedent to the Completion including those set out in the section headed “Conditions” in this announcement
“connected person(s)”	has the meaning ascribed to in the Listing Rules
“Consideration”	HK\$10,530,000,000 (subject to adjustments), being the consideration for the acquisition of the Sale Shares and the Sale Loans
“Consideration Shares”	new Shares credited as fully paid in the capital of the Company to be issued by the Company under the Agreement
“DB Indebtedness”	the indebtedness (including principal, interest, penalty or otherwise) owed by the Seller under the DB Note and the amount payable by the Seller to all warrant holders of the DB Warrants for cancellation of the DB Warrants together with all costs, fees and expenses payable to DB Trustee in connection therewith as of the Completion Date
“DB Note”	a deed of floating rate note issued by the Seller dated 31 March 2006 in the amount of US\$160,000,000 with floating rate entered into between the Seller and DB Trustee, pursuant to which the Seller has charged its interests in the BVI Companies and their respective fixed assets and current assets to DB Trustee and each of the BVI Companies has pledged the land, property, facilities, mine use right, right of insurance and deposits in its respective PRC Subsidiary to 德意志銀行上海分行 (Shanghai Branch of Deutsche Bank AG)
“DB Warrants”	the warrants, which confer rights to subscribe for approximately 10.7374% equity interest of the Seller, issued by the Seller pursuant to the warrant instrument dated 31 March 2006 entered into among Deutsche Bank AG, Firstwealth Holdings Limited, Parkside Alliance Limited, Figertips Group Limited, Tradestate Investments Limited, Senwide Limited, Cosmos Glory Investments Limited and Okaynet.com Limited
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for approving the Agreement and the transactions contemplated therein
“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”	to the best of the Directors’ knowledge, information and belief after making reasonable enquiries, third parties independent of the Company and its connected persons

“In-Place Resources”	the in situ coal tonnage before any adjustments for mining recovery, mining dilution, and coal beneficiation are applied
“Issue Price”	an issue price of HK\$4.5 per Consideration Share
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2008 or such later date as the Buyer and the Seller may determine
“Luensang A”	山西聯盛能源有限公司 (Shanxi Luensheng Energy Limited), a company established under the laws of the PRC
“Luensang B”	山西聯盛能源投資有限公司 (Shanxi Luensheng Energy Investment Limited), a company established under the laws of the PRC
“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
“Mine A”	a mine owned by PRC Subsidiary A
“Mine B”	a mine owned by PRC Subsidiary B
“Mine C”	a mine owned by PRC Subsidiary C
“Mines”	Mine A, Mine B and Mine C
“Mr. Wong”	Mr. Wong Lik Ping, the controlling Shareholder, executive Director and Chairman of the Company
“Mr. Xing”	Mr. Xing Libin, the controlling shareholder of the Seller
“Mr. Xing’s Consideration Shares”	new Shares credited as fully paid in the capital of the Company to be issued to Mr. Xing under the Agreement
“Mr. Xing’s Net Indebtedness”	the amount equal to the indebtedness (including principal, accrued but unpaid interests, fees, penalties or otherwise) owed by Mr. Xing to the Target Group minus the indebtedness (including principal, accrued but unpaid interests, fees, penalties or otherwise) owed by The Target Group to Mr. Xing (from time to time)
“Mrs. Xing”	Li Feng Xiao, being the spouse of Mr. Xing
“Other Owners”	the ultimate owners of the Seller other than Mr. Xing
“Post Completion Escrow Agent”	CitiBank or other trustee to be appointed by the Seller and the Buyer
“Post Completion Escrow Letter”	an escrow letter to be signed by the Buyer, the Seller and the Post Completion Escrow Agent in relation to, among other things, the escrow arrangement of the Escrow Cash and the Consideration Shares

“PRC”	the People’s Republic of China, for the purpose of this announcement only, excludes Hong Kong, Taiwan and Macau Special Administrative Region
“PRC Subsidiaries”	PRC Subsidiary A, PRC Subsidiary B and PRC Subsidiary C
“PRC Subsidiary A”	Shanxi Liulin Xingwu Coalmine Company Limited (山西柳林興無煤礦有限責任公司), a company incorporated in the PRC with limited liability and a subsidiary of Company A
“PRC Subsidiary B”	Shanxi Liulin Jinjiazhuang Coal Company Limited (山西柳林金家莊煤業有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Company B
“PRC Subsidiary C”	Shanxi Liulin Zhaiyadi Coal Company Limited (山西柳林寨崖底煤業有限公司), a company incorporated in the PRC with limited liability and a subsidiary of Company C
“Recoverable Reserves”	the tonnage produced in the mining process prior to any adjustments for coal beneficiation, which reflect mining recovery, and mining dilution adjustments to the in-place coal tonnage
“Sale Loans”	<ul style="list-style-type: none"> <li>(i) the unsecured shareholder’s loan advanced by the Seller to Company A. As at the date of the Agreement, the outstanding principal of the shareholder’s loan amounted to US\$20,199,501 (approximately HK\$157,556,000);</li> <li>(ii) the unsecured shareholder’s loan advanced by the Seller to Company B. As at the date of the Agreement, the outstanding principal of the shareholder’s loan amounted to US\$30,299,252 (approximately HK\$236,334,000);and</li> <li>(iii) the unsecured shareholder’s loan advanced by the Seller to Company C and the amount due from Company C to the Seller in the current account of Company C. As at the date of the Agreement, the outstanding principal of the shareholder’s loan amounted to US\$14,214,463.80 (approximately HK\$110,873,000) and the amount due to the Seller from Company C (non-interest bearing) amounted to US\$80,750,000 (approximately HK\$629,850,000)</li> </ul>
“Sale Shares”	The entire issued shares of each of the BVI Companies comprising: (i) 1 share of US\$1 each in the issued capital of Company A, being the entire issued share capital of Company A; (ii) 1 share of US\$1 each in the issued capital of Company B, being the entire issued share capital of Company B; and (iii) 1 share of US\$1 each in the issued capital of Company C, being the entire issued share capital of Company C
“Seller”	Fortune Dragon Group Limited, a company incorporated in BVI with limited liability
“Share(s)”	existing ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	holders of Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target Group”	the BVI Companies and their respective subsidiaries
“Technical Review Report”	a draft technical review report for the Mines prepared by BOYD which will be finalized and incorporated in the circular to be despatched to the Shareholders
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Mt”	million tonnes
“Mtpa”	million tonnes per annum
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*For the purpose of this announcement, all amounts in RMB are translated into HK\$ at an exchange rate of RMB1: HK\$1.11346 and all amounts in US\$ are translated into HK\$ at an exchange rate of US\$1: HK\$7.8.*

By order of the Board  
**SO KWOK HOO**  
*Executive Director*

Hong Kong, 21 May 2008

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