



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)

**ANNOUNCEMENT OF AUDITED CONSOLIDATED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

The board of directors (the “Directors”) of Fushan International Energy Group Limited (the “Company”) announces that the audited consolidated results of the Company and its subsidiaries (collectively as the “Group”) for the year ended 31 December 2007 together with the comparative figures for the corresponding period in 2006 were as follows:-

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Revenue	3	15,056	10,535
Cost of sales		<u>(13,206)</u>	<u>(8,601)</u>
Gross profit		1,850	1,934
Other operating income	5	15,142	275
Administrative expenses		(42,094)	(35,282)
Other operating expenses		<u>(17,469)</u>	<u>(3,013)</u>
Operating loss		(42,571)	(36,086)
Finance costs	6	(22,482)	(9,028)
Fair value loss on derivative liability of convertible notes	13	<u>(21,038)</u>	-
Loss before income tax	7	(86,091)	(45,114)
Income tax expense	8	-	-
Loss for the year		<u>(86,091)</u>	<u>(45,114)</u>
Attributable to:			
Equity holders of the Company		(77,948)	(30,988)
Minority interests		(8,143)	(14,126)
Loss for the year		<u>(86,091)</u>	<u>(45,114)</u>
Loss per share for loss attributable to the equity holders of the Company during the year	9		
- Basic		HK(3.42cents)	HK(1.49cents)
- Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		376,349	255,276
Leasehold land and land use rights		17,799	17,164
Goodwill		15,703	-
Interests in associate		-	-
Available-for-sale financial assets		7,597	-
Prepayments and deposits		389,437	227,934
		806,885	500,374
Current assets			
Inventories		-	-
Trade receivables	<i>10</i>	7,232	3
Prepayments, deposits and other receivables		20,429	6,154
Cash and cash equivalents	<i>11</i>	460,538	10,573
		488,199	16,730
Current liabilities			
Trade payables	<i>12</i>	2,294	-
Other payables		125,997	29,812
Bank loans		54,265	49,963
Other loans		130,323	89,882
Amounts due to related companies		25,907	-
Amounts due to minority equity holders of subsidiaries		85,589	1,998
Amount due to ultimate holding company		-	10,000
Derivative liabilities of convertible notes	<i>13</i>	10,916	-
		435,291	181,655
Net current assets/(liabilities)		52,908	(164,925)
Total assets less current liabilities		859,793	335,449
Non-current liabilities			
Other loans		-	141,995
Amounts due to related companies		-	25,820
Amounts due to minority equity holders of subsidiaries		33,769	68,054
Convertible notes	<i>13</i>	34,014	-
		67,783	235,869
Net assets		792,010	99,580
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	<i>14</i>	242,239	208,080
Reserves		491,492	(150,534)
		733,731	57,546
Minority interests		58,279	42,034
Total equity		792,010	99,580

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The financial statements have been prepared under the historical cost convention except for certain financial assets and financial liabilities which are stated at fair values.

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 14 April 2008.

2. ADOPTION OF NEW AND AMENDED HKFRSs

From 1 January 2007, the Group has applied all the new and amended HKFRSs, which are first effective on 1 January 2007 and relevant to the Group. The adoption of these HKFRSs has given rise to additional disclosures as follows:

HKAS 1 (Amendment) - Capital Disclosures

In accordance with HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report.

HKFRS 7 - Financial Instruments: Disclosures

This is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 – Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments, and
- a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items.

The adoption of other new and amended HKFRSs did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these new and amended HKFRSs have been considered. The adoption of these new and amended HKFRSs did not result in any changes to the amounts or disclosures in these financial statements.

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) Int-11	HKFRS 2: Group and Treasury Share Transactions ³
HK(IFRIC) Int-12	Service Concession Arrangements ⁴
HK(IFRIC) Int-13	Customer Loyalty Programmes ⁵
HK(IFRIC) Int-14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴

Notes:

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 March 2007

⁴ Effective for annual periods beginning on or after 1 January 2008

⁵ Effective for annual periods beginning on or after 1 July 2008

3. REVENUE

Revenue represents total invoiced value of goods supplied during the year and is analysed as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Sales of coal products	14,256	9,534
Sales of jewellery products	800	1,001
	<u>15,056</u>	<u>10,535</u>

4. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments.

An analysis of the Group's revenue and segment results for the year by principal activities is as follows:

	Revenue		Segment results	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:				
Sales of coal products	14,256	9,534	1,050	933
Production of coke products*	-	-	(12,668)	(17,732)
Sales of jewellery products	800	1,001	800	1,001
Unallocated expenses	-	-	(31,753)	(20,288)
	<u>15,056</u>	<u>10,535</u>	<u>(42,571)</u>	<u>(36,086)</u>
Finance costs			(22,482)	(9,028)
Fair value loss on derivative liability of convertible notes			(21,038)	-
Loss for the year			<u>(86,091)</u>	<u>(45,114)</u>

There was no inter-segment sale and transfer during the year (2006: Nil).

An analysis of the Group's assets, liabilities and capital expenditure as at 31 December 2007 by principal activities is as follows:

	Assets		Liabilities		Capital expenditure	
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:						
Sales of coal products	4,789	2,495	2,294	-	-	-
Production of coke products*	948,065	503,022	449,535	407,645	102,834	26,163
Sales of jewellery products	-	-	-	-	-	-
Unallocated	342,230	11,587	51,245	9,879	3	4
	<u>1,295,084</u>	<u>517,104</u>	<u>503,074</u>	<u>417,524</u>	<u>102,837</u>	<u>26,167</u>

4. SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

An analysis of the Group's depreciation and amortisation charged for the year by principal activities is as follows:

	Depreciation		Amortisation	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments:				
Sales of coal products	-	-	-	-
Production of coke products*	2,352	2,417	343	323
Sales of jewellery products	-	-	-	-
Unallocated	403	406	107	107
	2,755	2,823	450	430
Less: Depreciation capitalised in construction in progress	-	(180)	-	-
	2,755	2,643	450	430

*The Group has not yet commenced the commercial production of coke products during the years presented.

(b) Secondary reporting format – geographical segments

An analysis of the Group's revenue, segment results for the year, the Group's assets as at 31 December 2007 and capital expenditure incurred for the year by geographical segments is as follows:

Principal markets:	Revenue		Segment results		Total assets		Capital expenditure	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC	14,256	9,534	(11,618)	(17,022)	952,854	505,517	102,834	26,163
Hong Kong	800	1,001	(30,953)	(19,064)	342,230	11,587	3	4
	15,056	10,535	(42,571)	(36,086)	1,295,084	517,104	102,837	26,167

The business of jewellery (“the jewellery segment”) was ceased in 2006 due to a strategic decision to focus the direction of the Group to energy sector. The sales clearance of jewellery was completed on 28 February 2007.

As at 31 December 2007 and 31 December 2006, other than the intra-group balances, there were no other assets and liabilities remained within the jewellery segment. As a result, there was no gain or loss arose on the cessation of the jewellery segment. During the year ended 31 December 2007, sales arising from the jewellery segment contributed operating cash inflows of HK\$800,000 (2006: HK\$1,001,000) and this segment had no cash flows arising from investing or financing activities in both 2007 and 2006.

5. OTHER OPERATING INCOME

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Bank interest income on escrow account	7,042	-
Other bank interest income	8,100	275
	<u>15,142</u>	<u>275</u>

6. FINANCE COSTS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interest charges on:		
- Bank loans repayable within five years	3,765	3,295
- Other loans wholly repayable within five years	11,125	14,399
- Amounts due to related companies wholly repayable within five years	1,069	969
- Amounts due to minority equity holders of subsidiaries wholly repayable within five years	4,412	3,166
- Convertible notes wholly repayable within five years	15,189	-
Total borrowing costs	<u>35,560</u>	<u>21,829</u>
Less: interest capitalised in construction in progress*	<u>(13,078)</u>	<u>(12,801)</u>
	<u>22,482</u>	<u>9,028</u>

* The borrowing costs have been capitalised at the rates ranging from 6.00% to 7.00% per annum (2006: 6.00% to 8.00% per annum).

7. LOSS BEFORE INCOME TAX

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Loss before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expense	14,006	9,602
<i>Less: Write back of provision upon sales</i>	<u>(800)</u>	<u>(1,001)</u>
Cost of sales	<u>13,206</u>	<u>8,601</u>
Staff costs (<i>including directors' remuneration and retirement benefits scheme contributions</i>)	31,323	21,007
Depreciation of property, plant and equipment	2,755	2,823
<i>Less: Amount capitalised in construction in progress</i>	<u>-</u>	<u>(180)</u>
	<u>2,755</u>	<u>2,643</u>
Amortisation of operating lease prepayments	450	430
Auditors' remuneration		
- audit services	440	380
- other services	3,278	10
Operating leases charges in respect of land and buildings	<u>905</u>	<u>659</u>

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax and the PRC income tax has been made in the financial statements in respect of the Company and its subsidiaries for the year (2006: Nil), as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for setting off against current year's assessable profits or did not generate any assessable profits in Hong Kong and the PRC for the year.

9. LOSS PER SHARE

The calculation of basic loss per share attributable to the equity holders of the Company is based on the consolidated loss attributable to the equity holders of the Company of HK\$77,948,000 (2006: HK\$30,988,000) and the weighted average number of 2,277,844,621 (2006: 2,080,800,000) ordinary shares in issue during the year.

Subsequent to the balance sheet date and up to the date of these financial statements, the remaining principal amount of HK\$40,000,000 of the convertible notes was converted into 17,167,381 fully paid up ordinary shares. As a result, the Company's issued ordinary shares have increased and potential ordinary shares have decreased accordingly after the balance sheet date.

Diluted loss per share for the years ended 31 December 2007 and 2006 was not presented because the impact of the exercise of the share options and the convertible notes was anti-dilutive.

10. TRADE RECEIVABLES

General credit terms of the Group's trade receivables range from 60 to 90 days. At 31 December 2007, all trade receivables of the Group are aged within 60 days (2006: 30 days). The balances as at 31 December 2007 are denominated in Renminbi ("RMB") whilst those as at 31 December 2006 were denominated in HK\$.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Cash at banks and on hand	165,617	8,573
Short term bank deposits*	294,921	2,000
	460,538	10,573

* Short term bank deposits as at 31 December 2007 represents the net proceeds collected from the issue of the convertible notes on 20 April 2007 together with bank interest earned and the whole amount was placed at an escrow account until Conditions Subsequent as disclosed in note 13 was fulfilled. As all convertible notes have been converted into shares even though Conditions Subsequent was not fulfilled in January 2008, the deposits placed at the escrow account were transferred to the bank account of the Group.

Cash at banks earns interest at the floating rates based on the daily bank deposit rates. Short-term bank deposits are made for varying periods of one week to one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates ranging from 2.00% to 4.5% (2006: 0.54% to 4.26%) per annum.

As at 31 December 2007, included in cash and cash equivalents of the Group is HK\$126,201,000 (2006: HK\$7,265,000) of cash and bank balances denominated in RMB placed with the banks in the PRC. RMB is not a freely convertible currency.

12. TRADE PAYABLES

The Group was granted by its suppliers' credit periods ranging from 30 to 90 days. Based on the invoice dates, the Group's trade payables at the balance sheet date were all aged within 60 days. As at the balance sheet date, all trade payables of the Group were denominated in RMB.

13. CONVERTIBLE NOTES

On 20 April 2007, the zero coupon convertible notes in the principal amount of HK\$300,000,000 (the "Notes") were issued by Maxease, a wholly-owned subsidiary of the Company. The Notes are jointly and severally guaranteed by the Company and Mr. Wong Lik Ping who is a substantial shareholder and a director of the Company. The Notes, with the maturity date on 19 April 2012 (the "Maturity Date"), are convertible into shares of the Company with a par value of HK\$0.10 at the initial conversion price of HK\$2.33 (the "Conversion Price") per share at any time following the issue of the Notes until 10 business days prior to the Maturity Date.

The Conversion Price is to be adjusted on each of the first and second anniversaries of the issue date if the Company's weighted average trading price over the preceding calendar month (the "Reference Price") is less than 85% of the Conversion Price then in effect. The adjusted Conversion Price will be equal to the Reference Price, provided that any adjustment to the Conversion Price pursuant to the reset on a cumulative basis will be limited to 80% of the initial Conversion Price (i.e. HK\$1.864). The conversion is also subject to dilutive effect adjustments.

On the date falling 12 months following the issue date of the Notes if, by such date, the Company has not either invested into greenfield coalmine with the appropriate and necessary mining rights, or purchased coal mine assets that are already in operation (the "Conditions Subsequent"), the Notes may be redeemed at the option of the noteholders at a price that is equivalent to a yield of 7.5% per annum on a semi-annual basis (the "Early Redemption Price"). The net proceeds of the Notes are currently deposited at the escrow account until the Conditions Subsequent are fulfilled. As at 31 December 2007, the Company has not yet fulfilled the Conditions Subsequent.

13. CONVERTIBLE NOTES (Continued)

On the date falling 36 months following the issue date of the Notes, the Notes may be redeemed at the option of the noteholders at 124.7179% of their principal value which will enable the noteholders to obtain a yield of 7.5% per annum on a semi-annual basis. At any time after the 36th month of the issue date of the Notes, Maxease may redeem the Notes, in whole or in part at any time, at the Early Redemption Price; provided that the trading price of the Company's shares exceeds 140% of the Conversion Price for a consecutive period of not less than 30 trading days. If at least 90% of the Notes have been converted, redeemed, repurchased or cancelled, the Company is entitled to have clean-up call at the Early Redemption Price. Furthermore, the Notes may be redeemed at Maxease's option, in whole but not in part at any time, at the Early Redemption Price, in the event that Maxease or the Company would be required to pay the additional amounts in respect of the Notes as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or Hong Kong (or any other taxing jurisdiction to which Maxease or the Company becomes subject) in relation to taxes or any change in the official interpretation thereof.

Unless previously redeemed, converted or purchased and cancelled, the Notes shall be redeemed on the Maturity Date at 144.5044% of the principal value, which shall give the Notes a yield equal to 7.5% per annum on a semi-annual basis from the time of the issue on 20 April 2007.

The initial carrying amount of the liability component of the Notes is the amount after deducting the fair value of the derivative component. The derivative component is subsequently measured at fair value through profit or loss and the liability component is subsequently carried at amortised cost.

The movements in the Notes during the year are analysed as follows:

	2007			2006	
	Face value HK\$'000	Liability component HK\$'000	Derivative component HK\$'000	Total HK\$'000	HK\$'000
Proceeds of issue during the year	300,000	244,422	55,578	300,000	-
Transaction costs	-	(10,478)	-	(10,478)	-
Fair value loss on derivative component of the Notes	-	-	21,038	21,038	-
Interest expense	-	15,189	-	15,189	-
Conversion into ordinary shares	(260,000)	(215,119)	(65,700)	(280,819)	-
At 31 December	40,000	34,014	10,916	44,930	-

The fair value of the derivative component of the Notes was calculated using the Monte Carlo Simulation Model with the major inputs as at 20 April 2007 and 31 December 2007 as follows:

	20 April 2007	31 December 2007
Stock price	HK\$2.37	HK\$5.03
Exercise price	HK\$2.33	HK\$2.33
Volatility	58.26%	61.51%
Risk free rate	4.05%	3.096%

As the Monte Carlo Simulation Model requires the input of highly subjective assumptions, including volatility of share price, change in subjective input assumptions can materially affect the fair value estimate.

During the year, as there was a significant increase in the share price of the Company, the fair value of derivative component of the Notes increased accordingly, resulting in a fair value loss of HK\$21,038,000. Moreover, the Notes with face value of HK\$260,000,000 were converted into 111,588,000 shares of the Company at a conversion price of HK\$2.33 per share during the year.

Interest expense on the Notes is calculated using the effective interest method by applying the effective interest rate of 12.15% per annum to the liability component of the Notes.

14. SHARE CAPITAL

	Number of shares		Company	
	2007 '000	2006 '000	2007 HK\$'000	2006 HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each				
At 31 December	5,000,000	5,000,000	500,000	500,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.10 each				
At 1 January	2,080,800	2,080,800	208,080	208,080
Issue of new shares (Note (a))	230,000	-	23,000	-
Issue of new shares upon conversion of the Notes (Note (b))	111,588	-	11,159	-
At 31 December	2,422,388	2,080,800	242,239	208,080

Notes:

- (a) The Company and the placing agent entered into a placing agreement on 15 March 2007 pursuant to which the placing agent has conditionally agreed to procure the placees for a maximum of 230,000,000 new Shares (the "Placing Shares"), at a price of HK\$2.00 per share, on a best effort basis. On 2 April 2007, 230,000,000 Placing Shares were issued under the general mandate granted to the directors at the Company's annual general meeting held on 16 June 2006. Details of the transactions are set out in the Company's announcements dated 20 March 2007 and 2 April 2007. The net proceeds of approximately HK\$443,530,000 from the Placing Shares were received.
- (b) As described in note 13, the Notes with the principal amount of HK\$300,000,000 were issued on 20 April 2007 and are convertible into shares of the Company at the Conversion Price (HK\$2.33 per share) within certain periods and conditions. Up to the balance sheet date, the principal amount of HK\$260,000,000 of the Notes has been converted into 111,588,000 shares of the Company at the Conversion Price.

15. CAPITAL COMMITMENTS

The Group's capital commitments as at 31 December 2007 are as follows:

	2007 HK\$'000	2006 HK\$'000
Contracted but not provided for:		
-Acquisition of property, plant and equipment	374,271	112,895
-Exploration and design fees for a potential mining project	8,118	7,604
	382,389	120,499

16. CONTINGENT LIABILITIES

At 31 December 2006, the Group borrowed an amount of RMB50,000,000 (equivalent to approximately HK\$49,963,000) from a third party (the "Lender"), who in turn had borrowed the same amount from a financial institution. As a part of this funding arrangement, the Group and two subsidiaries of a minority equity holder of the Group have given joint and several guarantee for the amount borrowed by the Lender to the financial institution. At 31 December 2007, the relevant borrowing has been fully repaid.

17. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance date in January 2008, the remaining principal amount of HK\$40,000,000 of the Notes has been converted into 17,167,381 fully paid ordinary shares of the Company with a par value of HK\$0.10 at the initial conversion price of HK\$2.33 per share, resulting in the increase in issued share capital of the Company after the balance sheet date accordingly.
- (b) Subsequent to the balance date in January 2008, Shanxi Jinshan Energy Limited ("Jinshan") and a minority equity holder of a non-wholly owned subsidiary, namely Liulin Luenshan Coking Company Limited ("Luenshan") entered into a supplemental articles of association to increase the registered capital of Luenshan from RMB30,000,000 to RMB120,000,000. The registered capital of Luenshan will be increased by RMB90,000,000, of which RMB58,500,000 and RMB31,500,000 shall be contributed by Jinshan and the minority equity holder of Luenshan in accordance with their shareholdings respectively.
- (c) The Company entered into the Memorandum of Understanding (the "MOU") with Fortune Dragon Energy Limited ("Fortune Dragon") relating to a possible very substantial acquisition and connected transaction on 31 January 2008. Pursuant to the MOU, the Company and Fortune Dragon shall use their best endeavours to negotiate and finalise a definitive formal agreement for the Proposed Acquisition by no later than 29 February 2008 (or such later date as the parties may agree). As disclosed in the announcement of the Company dated 3 March 2008, on 3 March 2008, the parties to the MOU mutually agreed to extend the time for the negotiation and finalisation of the definitive agreement for the Proposed Acquisition to 30 March 2008, being the expiry date of the Exclusivity Undertaking under the MOU. On 31 March 2008, the parties to the MOU mutually agreed to further extend (i) the time for the negotiation and finalisation of the definitive agreement for the Proposed Acquisition and (ii) the expiry date of the Exclusivity Undertaking under the MOU to 30 April 2008. Details of the MOU are set out in the Company's announcements dated 31 January 2008, 3 March 2008 and 31 March 2008 respectively.

EXECUTIVE DIRECTOR'S STATEMENT

BUSINESS REVIEW

In last year, our total sales turnover increased by 43% to approximately HK\$15.00 million whereas coal trades amounted to approximately HK\$14.26 which rose by 50% in comparison with the previous year. Gross profit was HK\$1.85 million together with interest income, the overall income for the year reached approximately HK\$16.99 million. Due to the issue of 5-year zero-coupon convertible notes in last April together with the granting of the share option in the previous year, additional finance cost of HK\$15.19 million, fair value loss on derivative liability of convertible notes of HK\$21.04 million and share-based compensation expense of HK\$19.43 million were incurred according to the accounting standards. As we were in the progress of potential coal mine acquisition, professional expenses incurred were HK\$14.36 million. Eventually, the Group recorded a net consolidated loss attributable to the equity holders of the Company of approximately HK\$77.95 million for 2007.

As highlighted in our interim report that global economic system would be undergoing extraordinary strain as market turbulence arising for the second half of 2007. With decision made, we raised approximately HK\$730 million from the capital market in the first half of last year. With a healthy liquidity position and in line with our defined profit growing strategy, we increased our equity interest from 51% to 66% in the PRC joint-venture “山西曜鑫煤焦有限責任公司 Shanxi Yao Zin Coal and Coking Company Ltd (“Yao Zin”)” in last July. We also raised our shareholding from 65% to 91.25% in another PRC joint-venture “山西金山能源有限公司 Shanxi Jinshan Energy Limited (“Jinshan”)” in last November. Indeed, one of our coke plants would start trial operation in the second quarter this year, both revenue and profit growth will then take place and bring the principle business of the Company into a new chapter.

FINANCIAL POSITION

Material acquisitions and disposals

On 24 July 2007, the Group and two minority equity holders of Yao Zin entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase the registered capital of Yao Zin from RMB80,000,000 to RMB320,000,000. The registered capital of Yao Zin was increased by RMB240,000,000, of which RMB170,400,000 shall be contributed by the Group and the remaining of RMB69,600,000 shall be contributed by one of minority equity holders of Yao Zin. The proportionate capital contribution of RMB170,400,000 to be made by the Group would be financed by the proceeds of the share placement and issue of convertible notes in April 2007. As at 31 December 2007, the Group has injected cash of RMB140,000,000 to Yao Zin. The remaining balance of RMB30,400,000 will be injected into Yao Zin later. Upon completion during the year ended 31 December 2007, the Group increased its equity interest in Yao Zin from 51% to 66%.

In addition, on 26 November 2007, the Group and minority equity holders of Jinshan entered into a supplemental sino-foreign equity joint venture agreement and a supplemental articles of association to increase the registered capital of Jinshan from RMB100,000,000 to RMB400,000,000. The increase in the registered capital of RMB300,000,000 shall be contributed by the Group only and would be financed by the proceeds of the share placement and issue of convertible notes in April 2007. As at 31 December 2007, the Group has injected cash of RMB100,000,000 to Jinshan. The remaining balance of RMB200,000,000 will be injected into Jinshan later. Upon completion during the year ended 31 December 2007, the Group increased its equity interest in Jinshan from 65% to 91.25%.

During the year ended 31 December 2007, save as disclosed above, neither the Company nor any of its subsidiaries had any material acquisitions or disposals.

Charges on Assets

At 31 December 2007, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

At 31 December 2007, there were no guarantees given to any banks or financial institutions by the Group.

FINANCIAL POSITION (Continued)

Gearing Ratio

At 31 December 2007, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by the total equity, was approximately 37%. The borrowings were mainly for financing certain construction and installation of plant and machinery of two subsidiaries for the production of coking coal products in the PRC and payment for deposits for a potential mining project. On 20 April 2007, the Group issued 5-year zero coupon convertible notes (the "Notes") for the aggregate principal amount of HK\$300,000,000 to finance existing and future coal related projects. As at 31 December 2007, the Notes with the aggregate principal amount of HK\$260,000,000 have been converted into shares of the Company. The remaining principal amount of HK\$40,000,000 was converted into shares of the Company in the early of January 2008.

Exposure To Fluctuations In Exchange Rates

At 31 December 2007, other than assets and liabilities denominated in Renminbi, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

At 31 December 2007, the Group's current ratio (current assets divided by current liabilities) was approximately 1.12 and the Group's cash and bank deposits amounted to approximately HK\$460,538,000, of which approximately HK\$294,921,000 was deposited at the escrow account. On 24 January 2008, the amount deposited at the escrow account was released. In April 2007, the Company raised net proceeds of approximately HK\$730,000,000 from the issue of new shares and the Notes in order to strengthen the working capitals of the Group.

Staff

The Group had 7 Hong Kong employees and 375 PRC employees at 31 December 2007 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees. The Group has also adopted share option scheme since 20 June 2003. No share option was granted during the year ended 31 December 2007.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2007.

FUTURE PROSPECTS

In 2008, it is believed that the recession of the US property market leads credit deterioration will carry on, rising of commodities price especially on oil are the consequence of the prolonged weak US dollar policy, and these financial situation will remain as the issues for the whole year round. Because of the fast growing inflation, China keeps on intensifying the macro economic measures to maintain a stable and progressive economic development. We have determined to focus our business in Shanxi province with areas in coal mine and its downward integrations. This year, we will increase the productivity of our coke plants to meet market demand gradually. We have started to build a preparation plant with output capacity of 3 million tons per annum and planned to have production be commenced by the end of 2008 or in the early of 2009. This approach will enable us to expand the customer base, increase both revenue and profitability together.

In respect of the coalmine investment, we have entered into the memorandum of understanding (the "MOU") including exclusivity undertaking in relation to a potential acquisition in coalmines in-operation. We are still in progress of discussion with the vendor and hopefully we would complete the acquisition shortly. We will definitely strengthen our position in the coal business through the successfulness of this acquisition. Details of the MOU are set out in the Company's announcements dated 31 January 2008, 3 March 2008 and 31 March 2008.

On the other hand, our application of the target mining right progressed well in obtaining approvals and documents from the relevant government authorities. We expect the application process would be completed within this year. With the addition of the coal reserve, our Group will be well positioned in the China coal sector and benefited a distinct competitive advantage in the way ahead.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2007, in compliance with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited, which came into effect on 1 January 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of code of conduct regarding securities transactions by directors (the “Code of Conduct”). The Directors have made enquiry to all directors of the Company to confirm that they have complied with the Code of Conduct during the year.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors. The Audit Committee has reviewed the audited Annual Report of the Group for the year ended 31 December 2007 (the “Annual Report”).

DISCLOSURE OF THE ANNUAL REPORT ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

The Annual Report containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and on the website of the Company at www.fushan.com.hk in due course.

APPRECIATION

With the coke plant production begins shortly, our Group is making a significant progress to commit ourselves in the energy sector. We would like to express our appreciation to our fellow Directors and the colleagues for their contribution and commitment in bringing the Group into a unique and fast growth business.

SO Kwok Hoo

Executive Director
Hong Kong, 14 April 2008

As at the date of this announcement, the Director 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.