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福山國際能源集團有限公司

FUSHAN INTERNATIONAL ENERGY GROUP LIMITED

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

(Stock Code: 639)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

FINANCIAL HIGHLIGHTS

- The Group recorded a turnaround in profitability and substantial net profit of approximately HK\$707 million for the year ended 31 December 2008 when compared with the net loss of approximately HK\$86 million for the year ended 31 December 2007. The substantial profit was solely attributable to the significant profit arising from three new acquired high quality coking coal mines during the period from 26 July 2008 to 31 December 2008.
- The Group recorded a turnover of approximately HK\$1,897 million in 2008, representing a significant increase of 126 times over approximately HK\$15 million in 2007.
- The net profit attributable to equity holders of the Company for the year ended 31 December 2008 was approximately HK\$568 million.
- The basic earnings per share for profit attributable to the equity holders of the Company for the year ended 31 December 2008 was HK16.86 cents.
- Gross profit margin for the year ended 31 December 2008 achieved at 65%.
- EBITDA¹ for the year ended 31 December 2008 was approximately HK\$1,186 million.

The board of directors (the “Directors”) of Fushan International Energy Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively as the “Group”) for the year ended 31 December 2008 together with the comparative figures for the corresponding period in 2007 as follows:-

Note 1: EBITDA is defined as operating profit plus depreciation and amortisation.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
Revenue	4	1,896,577	15,056
Cost of sales		(659,645)	(13,206)
Gross profit		1,236,932	1,850
Other operating income	6	47,592	15,142
Selling and distribution expenses		(59,759)	-
General and administrative expenses		(140,873)	(42,094)
Other operating expenses		(43,899)	(17,469)
Impairment loss recognised on the re-measurement of assets of disposal group	16	(15,305)	-
Operating profit/(loss)		1,024,688	(42,571)
Finance costs	7	(91,337)	(22,482)
Fair value loss on derivative liabilities of convertible notes		-	(21,038)
Share of results of associates		(225)	-
Profit/(Loss) before income tax	8	933,126	(86,091)
Income tax expense	9	(226,499)	-
Profit/(Loss) for the year		706,627	(86,091)
Attributable to:			
Equity holders of the Company	10	567,649	(77,948)
Minority interests		138,978	(8,143)
Profit/(Loss) for the year		706,627	(86,091)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company	11		
- Basic (Cents)		16.86	(3.42)
- Diluted (Cents)		16.54	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	<i>Notes</i>	2008 HK\$'000	2007 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,062,535	376,349
Prepaid lease payments		61,819	17,799
Mining rights	12	10,545,819	-
Goodwill	13	2,079,145	15,703
Interests in associates		19,573	-
Available-for-sale financial assets		8,403	7,597
Deposits, prepayments and other receivables		264,665	389,437
Amount due from a connected party		218,712	-
		15,260,671	806,885
Current assets			
Inventories		187,465	-
Trade and bill receivables	14	999,408	7,232
Deposits, prepayments and other receivables		215,801	20,429
Amounts due from connected parties	15	1,495,944	-
Pledged bank deposits		168,941	-
Cash and cash equivalents		760,163	460,538
Assets classified as held for sale	16	163,875	-
		3,991,597	488,199
Current liabilities			
Liabilities directly associated with assets classified as held for sale	16	29,238	-
Trade and bill payables	17	380,795	2,294
Other payables and accruals	18	1,819,680	125,997
Borrowings		1,590,917	184,588
Amount due to a director		20,000	-
Amounts due to connected parties		51,137	-
Amounts due to related companies		12,316	25,907
Amounts due to minority equity holders of subsidiaries		97,203	85,589
Derivative liabilities of convertible notes		-	10,916
Tax payables		399,966	-
		4,401,252	435,291
Net current (liabilities)/assets		(409,655)	52,908
Total assets less current liabilities		14,851,016	859,793
Non-current liabilities			
Borrowings		35,171	-
Amounts due to minority equity holders of subsidiaries		-	33,769
Convertible notes		-	34,014
Other long term payables		238,550	-
Deferred tax liabilities	19	2,128,298	-
		2,402,019	67,783
Net assets		12,448,997	792,010
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	20	456,456	242,239
Reserves		10,365,283	491,492
		10,821,739	733,731
Minority interests		1,627,258	58,279
Total equity		12,448,997	792,010

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Fushan International Energy Group Limited (the "Company") is a limited liability company incorporated and domiciled in Hong Kong. Its registered office address is 12th Floor, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries are referred to as the "Group" hereinafter.

The principal activity of the Company is investment holdings. On 9 May 2008, one of the wholly-owned subsidiaries, Jade Green Investments Ltd ("Jade Green"), Mr. Wong Lik Ping ("Mr. Wong"), one of the substantial shareholders, entered into a sales and purchase agreement (the "Agreement") with Mr. Xing Libin ("Mr. Xing"), the controlling shareholder of Fortune Dragon Group Limited ("Fortune Dragon") to acquire three companies, namely Thechoice Finance Limited ("Thechoice"), Worldman Industrial Limited ("Worldman") and Gumpert Industries Limited ("Gumpert"), all of which are incorporated in the British Virgin Islands (the "BVI"). These companies are all engaged in coking coal mining and production and sales of raw and clean coking coal in the People's Republic of China (the "PRC") through their non-wholly owned PRC subsidiaries, each of which has coalmines. The whole transaction is referred to as the "Very Substantial Acquisition" hereinafter. These PRC subsidiaries are Shanxi Liulin Xingwu Coalmine Company Limited ("Xingwu"), Shanxi Liulin Jinjiazhuang Coal Company Limited ("Jinjiazhuang") and Shanxi Liulin Zhaiyadi Coal Company Limited ("Zhaiyadi"). Details of the Very Substantial Acquisition have been set out in the Company's circular dated 25 June 2008. The Very Substantial Acquisition was completed on 25 July 2008.

On 19 April 2008, Shanxi Jinshan Energy Limited ("Jinshan") entered into a conditional sale and purchase agreement with a subsidiary of the minority shareholder of Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng") to dispose of its 70% equity interest in Risheng for a cash consideration of RMB110 million (HK\$125 million equivalent) (the "Disposal"). Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal are set out in the circular of the Company dated 29 December 2008. As at 31 December 2008, the Disposal had not yet completed. (note 16).

The principal activities of the Group's subsidiaries comprise the production and sales of coking coal products and side products. Other than the Very Substantial Acquisition and the Disposal as described above, there were no significant changes in the Group's operations during the year. The Group's principal places of the business are in Hong Kong and the PRC.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretation ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable 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 (the "Listing Rules").

The financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 16 April 2009.

2. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Company's financial statements for the annual period beginning on 1 January 2008:

HKAS 39 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the Group has not early adopted any new HKFRs that are not yet effective for the current accounting period. The directors are currently assessing the impact of these new HKFRs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position.

3. BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities which are stated at fair values.

In preparing the financial statements, the directors have considered the operations of the Group as a going concern in view of the fact that the Group's current liabilities has exceeded its current assets by HK\$409,655,000 as at 31 December 2008 (2007: net current assets of HK\$52,908,000). This condition may indicate the existence of material uncertainty which may cast significant doubts on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors prepare the financial statements based on the assumption that the Group can be operated as a going concern and are of the view that the Group will have sufficient working capital to finance its operations in the next twelve months, after taking into consideration of the followings:

1. As at 31 December 2008, current portion of the borrowings amounted to HK\$1,590,917,000 (2007: HK\$184,588,000). Of which, an aggregate balance of HK\$1,110,112,000 of two tranches loan repayments, granted to a subsidiary of the Group, will be due in May 2009 and September 2009. The Group is in the progress of applying the re-financing arrangement on its existing loan balances of HK\$1,110,112,000 as at 31 December 2008 either with the existing lender or other banks. In the absence of any unforeseeable adverse circumstances, the directors of the Company are confident that the Group can get the bank's approvals to extend the repayment dates of these two tranches loans or one tranche loan, prior to the maturity dates in May 2009 and September 2009 to September 2010 or later or re-financing with other banks; and

2. The directors have prepared the cash flow projections of the Group for the next twelve months. In light of the net cash inflow generated from operating activities of HK\$980,883,000 (2007: outflow of HK\$46,342,000) for the year ended 31 December 2008, the directors are of the opinion that, in the absence of any unforeseeable adverse circumstances and any significant investing activities for the next twelve months, persistent positive operating cash inflows can be generated from the subsidiaries as a result of the Very Substantial Acquisition (note 1). As such, the directors are of the opinion that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

In light of the above, the directors believe that the Group will be able to operate as a going concern. Accordingly, the financial statements are prepared based on the assumption that the Group can be operated as a going concern.

Should the Group be unable to generate sufficient cash flows and/or secure the support of its banks, the Group might not be able to continue in business as a going concern. Accordingly, adjustments would have to be made in the financial statements to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not yet been reflected in the financial statements.

4. REVENUE

Revenue, which is also the Group's turnover, comprises total invoiced value of coal supplied, net of applicable VAT in the PRC. Revenue recognised during the year are as follows:

	2008	2007
	HK\$'000	HK\$'000
Sales of raw coal	1,315,771	14,256
Sales of clean coal	495,790	-
Sales of coke	85,016	-
Sales of jewellery	-	800
	1,896,577	15,056

5. SEGMENT INFORMATION

5.1 Primary reporting format – business segments

The Group comprises two business segments as follows :

- Coal Mining : Mining and exploration of coal resources and production of raw coking coal and clean coking coal
- Coke Production : Production of coke

The following tables present revenue, results information for the year ended 31 December 2008 and certain assets and liabilities information as at 31 December 2008 for the Group's business segments.

	Coal mining		Coke production		Others		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue :								
Sales to/revenue from external parties	1,811,561	14,256	85,016	-	-	800	1,896,577	15,056
Segment results	1,148,068	1,050	(93,872)	(12,668)	-	800	1,054,196	(10,818)
Unallocated income and expenses							(29,508)	(31,753)
Operating profit/(loss)							1,024,688	(42,571)
Finance costs	(87,559)	-	(3,674)	-	-	-	(91,337)	(22,482)
Fair value loss on derivative liabilities of convertible notes							-	(21,038)
Share of results of associates	(225)	-	-	-	-	-	(225)	-
Profit/(Loss) before income tax							933,126	(86,091)
Income tax expense							(226,499)	-
Profit/(Loss) for the year							706,627	(86,091)
Segment assets	18,093,924	4,789	668,572	948,065	-	-	18,762,496	952,854
Interests in associates							19,573	-
Unallocated assets							470,199	342,230
Total assets							19,252,268	1,295,084
Segment liabilities	2,072,200	2,294	104,436	449,535	-	-	2,176,636	451,829
Unallocated liabilities							4,626,635	51,245
Total liabilities							6,803,271	503,074
Other segment information								
Capital expenditure	12,427,081	16,176	235,005	86,104	-	3	12,662,086	102,283
Depreciation	40,601	2,096	21,869	256	247	403	62,717	2,755
Amortisation of mining rights	97,923	-	-	-	-	-	97,923	-
Amortisation of prepaid land lease	568	129	232	214	107	107	907	450
Provision for impairment of trade receivables	13,089	-	-	-	-	-	13,089	-
Write-down of inventories to net realisable value	-	-	31,465	-	-	-	31,465	-

5.2 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 2008 and capital expenditure incurred for the year by geographical segments is as follows :

	Revenue		Segment results		Total assets		Capital expenditure	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal markets								
PRC	1,896,577	14,256	1,054,196	(11,618)	18,782,069	952,854	12,662,086	102,280
Hong Kong	-	800	(29,508)	(30,953)	470,199	342,230	-	3
	1,896,577	15,056	1,024,688	(42,571)	19,252,268	1,295,084	12,662,086	102,283

6. OTHER OPERATING INCOME

	2008	2007
	HK\$'000	HK\$'000
Gain on disposals of property, plant and equipment	1,230	-
Gain on sales of purchased coal	10,939	-
Gain on sales of scrapped products	15,645	-
Write-back of impairment on other receivables	6,474	-
Bank interest income on escrow accounts	74	7,042
Other bank interest income	6,088	8,100
Exchange gain	7,142	-
	47,592	15,142

7. FINANCE COSTS

	2008	2007
	HK\$'000	HK\$'000
Interest charged on:		
- bank borrowings repayable within five years	71,786	3,765
- other loans wholly repayable within five years	16,486	11,125
- amounts due to related companies wholly repayable within five years	358	1,069
- amounts due to minority equity holders of subsidiaries wholly repayable within five years	1,777	4,412
- convertible notes wholly repayable within five years	103	15,189
- early redemption of bill receivables	4,541	-
- finance charges on finance leases	133	-
	95,184	35,560
Less: interest capitalised in construction in progress*	(3,847)	(13,078)
Total finance costs	91,337	22,482

* the borrowing costs have been capitalised at the rates ranging from 6% to 7% per (2007: 6% to 7%) annum.

8. PROFIT/(LOSS) BEFORE INCOME TAX

	2008	2007
	HK\$'000	HK\$'000
Profit/(Loss) before income tax is arrived at after charging:		
Cost of inventories recognised as expenses	637,219	13,206
Amortisation of :		
- prepaid land leases	907	450
- mining rights	97,923	-
Auditors' remuneration :		
- audit services	1,500	440
- other services	2,784	3,278
Less : capitalised as part of the investment cost in business combinations	(2,222)	-
	2,062	3,718
Depreciation of property, plant and equipment		
- owned assets	24,135	2,755
- leased assets	38,582	-
Employee benefit expenses (including directors' emoluments and retirement benefits scheme contributions)	146,409	31,323
Operating lease charges in respect of land and buildings	8,400	905
Provision for impairment of trade receivables	13,089	-
Write-down of inventories to net realisable value	31,465	-

9. INCOME TAX EXPENSE

	2008	2007
	HK\$'000	HK\$'000
Current tax - PRC income tax	153,453	-
Deferred tax	73,046	-
	226,499	-

No provision for Hong Kong profits tax has been provided in the financial statements as the Group had no assessable profit arising in Hong Kong in 2007 and 2008. The Hong Kong SAR Government enacted a reduction in the Profits Tax Rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009. Accordingly, the relevant current or deferred tax has been calculated using the new tax rate of 16.5%.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain subsidiaries, namely Xingwu, Jinjiazhunag and Zhaiyadi, all established in the PRC, were entitled to full exemption on the income tax in the PRC for the years ended 31 December 2006 and 2007 and a 50% relief from the corporate income tax for the three subsequent years ending 31 December 2010.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the PRC New Corporate Income Tax Law was approved and become effective on 1 January 2008. The PRC New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the corporate income tax rates for domestic-invested and foreign-invested enterprises at 25%. As a result, the applicable income tax rate of all PRC subsidiaries within the Group has changed to 25% with effect from 1 January 2008.

The enterprise income tax rate for the calendar years from 2008 to 2010 is changed from 16.5% to 12.5%. From the calendar year of 2011 onwards, the enterprise income tax rate for Xingwu, Jinjiazhuang and Zhaiyadi shall become 25% without any exemption.

Under the PRC New Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared in respect of profits earned by the PRC subsidiaries to the foreign investors, where there is no tax treaty with the PRC, from 1 January 2008 onwards. The Group is therefore liable to withholding taxes on dividends distributed by its PRC subsidiaries, namely Xingwu, Jinjiazhuang and Zhaiyadi, in respect of earnings from which generated since the Very Substantial Acquisition completed on 25 July 2008 (note 1).

10. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit for the year attributable to the equity holders of the Company of HK\$567,649,000 (2007: loss of HK\$77,948,000), a loss of HK\$20,602,000 (2007: HK\$28,790,000) has been dealt with in the financial statements of the Company.

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	2008 HK\$'000	2007 HK\$'000
Profit/(Loss) attributable to equity holders of the Company	567,649	(77,948)
Interest on convertible notes	103	15,189
Profit/(Loss) used to determine diluted earnings/(loss) per share	567,752	(62,759)
	'000	'000
Number of shares		
Weighted average number of ordinary share for the purpose of basic earnings/(loss) per share	3,367,451	2,277,845
Effect of dilutive potential ordinary shares :		
- Share options	60,385	-
- Convertible notes	5,174	-
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share (note)	3,433,010	2,277,845

Note:

For the year ended 31 December 2007, the computation of diluted earnings per share did not assume the exercise of the outstanding share options and convertible notes as the exercise of the share options and convertible bonds was anti-dilutive.

12. MINING RIGHTS

	2008 HK\$'000	2007 HK\$'000
Opening net carrying amount	-	-
Addition from acquisition of subsidiaries (note 21)	10,689,739	-
Exchange retranslation	(45,997)	-
Amortisation charge	(97,923)	-
Closing net carrying amount	10,545,819	-
Gross carrying amount	10,644,745	-
Accumulated amortisation	(98,926)	-
Net carrying amount	10,545,819	-

All mining rights are pledged for banking facilities denominated in RMB1,005,649,000 granted to the Group as at 31 December 2008 (2007: Nil).

13. GOODWILL

	2008 HK\$'000	2007 HK\$'000
Gross carrying amount at 1 January	17,713	2,010
Exchange retranslation	(8,686)	-
Acquisition of subsidiaries (note 21)	2,063,939	-
Balance arising from additions in equity interest in subsidiaries	8,189	15,703
Gross carrying amount at 31 December	2,081,155	17,713
Less: Accumulated impairment loss	(2,010)	(2,010)
Net carrying amount at 31 December	2,079,145	15,703

Goodwill arose during the year relates to the Very Substantial Acquisition (note 1) and is allocated to the cash-generating units that are expected to benefit from that acquisition. The carrying amount of goodwill had been allocated as follows:

	HK\$'000
Xingwu	793,820
Jinjiazhuang	739,100
Zhaiyadi	521,115
Jinshan	21,927
Yao Zin	3,183
Net carrying amount at 31 December	2,079,145

14. TRADE AND BILL RECEIVABLES

	2008	2007
	HK\$'000	HK\$'000
Trade receivables	830,394	7,232
Bill receivables	182,103	-
	1,012,497	7,232
Less: Provision for impairment	(13,089)	-
	999,408	7,232

Trade debtors generally have credit terms ranging from 60 to 90 days and no interest is charged.

The carrying amount of trade and bill receivables is considered a reasonable approximation of fair value at this financial asset, which is measured at amortised cost, is expected to be paid within a short timescale, such that the time value of money impact is not significant.

At each balance sheet date, trade and bill receivables are individually determined to be impaired. The individually impaired receivables, if any, are recognised, based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision of HK\$13,089,000 is recognised. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bill receivables directly. As at 31 December 2008, ageing analysis of net trade and bill receivables, based on the invoice dates, are as follows:

	2008	2007
	HK\$'000	HK\$'000
0 - 90 days	442,728	7,232
91 – 180 days	289,269	-
181 – 365 days	68,585	-
Over 365 days	198,826	-
	999,408	7,232

As at 31 December 2008, ageing analysis of trade and bill receivables that are not impaired is as follows:

	2008	2007
	HK\$'000	HK\$'000
Neither past due nor impaired	442,728	7,232
1 – 90 days past due	289,269	-
91 – 275 days past due	8,238	-
181 – 365 days past due	157,093	-
Over 365 days past due	102,080	-
	556,680	-
	999,408	7,232

Trade and bill receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of credit.

Trade and bill receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no additional impairment allowance is necessary in respect of these balances as there had not been a significant change in credit quality and the balances are considered fully recoverable.

Included in trade receivables balances categorised under 180 days past due are a number of long outstanding balances due from certain customers amounting to approximately HK\$233,617,000 (RMB205,721,000 equivalent) (the "Overdue Debts") and according to an undertaking letter dated 4 September 2008, Mr. Xing, together with Shanxi Luensheng Energy Limited and Shanxi Luensheng Energy Investment Limited (collectively referred to as the "Luensheng Companies") in which Mrs. Xing holds material equity interests and which respectively hold 5% minority interests in Zhaiyadi and 35% minority interests in Jinjiazhuang, agreed to undertake to make any good losses which the Group may suffer as a result of default in repayment for the Overdue Debts as at 31 December 2008. Further on 15 April 2009, a pledge document was entered into between the Company, Jade Green, Mr. Xing and Luensheng Companies, with which Luensheng Companies agreed to pledge their sharing profits since 1 January 2009 in Zhaiyadi and Jinjiazhuang to settle the Overdue Debts until the Overdue Debts have been fully recovered by the Group.

15. AMOUNTS DUE FROM CONNECTED PARTIES

	2008
	HK\$'000
Liulin Xian Nahagou Meiye Company Limited#	7,688
Liulin Xian Shiweigou Meiye Company Limited#	2,144
Shanxi Liulin Guojiashan Meiye Company Limited#	773
Liulin Xian Chenjiawan Xiang Baicaoer Meikuang#	1,044
Shanxi Fortune Dragon Coalification Company Limited#	378,327
Liulin Xian Yongsheng Xuanmeichang ("Yongsheng Xuanmeichang")#	250,659
Liulin Xian Wangjiagou Meikuang#	1,794
Liulin Xian Baicaoer Jiansing Xuanmei Company Limited#	86,780
Liulin Xian Longmenta Meikuang#	1,019
Shanxi Tongjiang Energy Group Company Limited#	2,267
Mr. Xing Libin ("Mr. Xing") *	982,161
	1,714,656
Less : amount due from Mr. Xing included under non-current assets *	(218,712)
Amount included under current assets	1,495,944

The unofficial English translation is for identification purpose only

*According to the payment notices dated 17 September 2008 issued by the Land Resource Bureau of Liulin County, Shanxi Province, the PRC, an aggregate sum of HK\$796,985,000 (RMB701,818,000 equivalent) in respect of the coal mining rights was levied on Xingwu, Jinjiazhuang and Zhaiyadi. As of the balance sheet date, partial payment amounting to HK\$22,712,000 (RMB20,000,000) (the "Prepaid Sum") was paid by the Group and another sum of HK\$22,712,000 (RMB20,000,000) was paid in February 2009. Upon further negotiation with the relevant local government authority, on 16 March 2009, the amount of HK\$796,985,000 was revised and finalised as HK\$982,162,000 (RMB864,883,000 equivalent) (the "Levied Sum"), of which, after deducting the Prepaid Sum, HK\$740,738,000 (RMB652,288,000 equivalent) shall be paid within 2009 and the remaining amount of HK\$218,712,000 (RMB192,595,000 equivalent) shall be paid after 2009. The Levied Sum has been provided for and included under "other payables and accruals" (note 18).

In accordance with Clause 11.5.1 of the Agreement (as defined in note 1 to the financial statements), on 30 March 2009, the Company issued a notice (the "Notice") to Mr. Xing and Fortune Dragon Group Limited (the "Seller") to claim against the Seller for the Levied Sum. On 16 April 2009, among others, the Company, Jade Green, Mr Xing and the Seller entered into a settlement agreement pursuant to which, Mr Xing (as guarantor of the Seller under the Agreement) agreed to reimburse the Group against the full amount of the Levied Sum by instalments as follows: HK\$45,424,000 (RMB40,000,000 equivalent) on or before 30 June 2009, HK\$718,026,000 (RMB632,288,000 equivalent) on or before 31 December 2009 and HK\$218,712,000 (RMB192,595,000 equivalent) on or before 31 December 2010, or such other payment schedule as agreed by the relevant local government authority. Should the performance of the settlement agreement by Mr. Xing constitute a connected transaction of the Company, the Company will comply with the relevant disclosure and/or independent shareholders' approval requirements under the Listing Rules as and when necessary

Remaining balances due are all unsecured, interest-free and repayable on demand. Except for Liulin Xian Yongsheng Xuanmeichang, all related companies above are ultimately owned by Mr. Xing and/or Mrs. Xing, who has equity interests in the Company. Liulin Xian Yongsheng Xuanmeichang is owned by Mr. Xing Yanbin, a brother of Mr. Xing. There were no balances due from connected parties as at 31 December 2007.

16. ASSETS CLASSIFIED AS HELD FOR SALE

As described in note 1 to the financial statements, on 19 April 2008, Jinshan entered into a conditional sale and purchase agreement with a subsidiary of the minority shareholder of Risheng for the Disposal at a cash consideration of RMB110 million (HK\$125 million equivalent). Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal are set out in the circular of the Company dated 29 December 2008. As at 31 December 2008, the Disposal has not yet completed.

Having estimated the cost to sell to be approximately HK\$500,000 and assessed the recoverable amounts of the relevant assets and liabilities with reference to the sales proceeds, the directors of the Company consider that an impairment loss of HK\$15,305,000 is likely to be incurred and thus the amount is recognised in the income statement for the year ended 31 December 2008.

Major assets and liabilities of Risheng classified as assets held for sale as at 31 December 2008 are as follows :

	HK\$'000
Property, plant and equipment	179,059
Deposits and other receivables	6
Bank and cash balances	115
<hr/>	
Total assets classified as held for sale	179,180
Less : Impairment loss recognised on re-measurement of assets of the Disposal	(15,305)
<hr/>	
Assets classified as held for sale	163,875
Liabilities directly associated with the assets classified as held for sale	(29,238)
<hr/>	
Net assets of disposal of a subsidiary	134,637

Risheng did not contribute any revenue to the Group but contributed net loss of approximately HK\$5,804,000 during the year. In view of the fact that Risheng does not represent a separate major line of business and its insignificant financial impact to the Group's result for the year, the Disposal is not classified as discontinued operation and no separate line items of discontinued operations was shown on the face of the income statement and the cash flow statement.

17. TRADE AND BILL PAYABLES

The Group was granted by its suppliers the credit period ranging between 30 and 180 days during the year. Based on the invoice dates, ageing analysis of trade and bill payables as at 31 December 2008 are as follows:

	2008	2007
	HK\$'000	HK\$'000
0 - 90 days	278,580	2,294
91 – 180 days	76,586	-
181 – 365 days	12,041	-
Over 365 days	13,588	-
<hr/>		
	380,795	2,294

18. OTHER PAYABLES AND ACCRUALS

	2008	2007
	HK\$'000	HK\$'000
Advances from customers	85,349	-
Accruals	335,185	83,474
Levied Sum (note 15)	959,450	-
Other payables	678,246	42,523
Total other payables and accruals	2,058,230	125,997
Less: Balances grouped under non-current liabilities		
- Levied Sum (note 15)	(218,712)	-
- Other long term payables	(19,838)	-
	(238,550)	-
Balances grouped under current liabilities	1,819,680	125,997

As at 31 December 2008, other payables and accruals include payable in relation to construction payable on property, plant and equipment, environmental restoration fund payable, and other tax levies amounting to HK\$120,172,000 (2007: 52,679,000), HK\$60,839,000 (2007: HK\$Nil), HK\$240,049,000 (2007: Nil) respectively.

19. DEFERRED TAX LIABILITIES

Major deferred tax liabilities recognised in the balance sheet and their movements during the year are as follows :

	Withholding tax	Fair value adjustments of property, plant and equipment and mining rights	Total
	HK\$'000	HK\$'000	HK\$'000
At beginning of the year	-	-	-
Acquisition of subsidiaries (note 21)	-	2,063,939	2,063,939
Exchange retranslation	-	(8,687)	(8,687)
Charged to the income statement (note 9)	73,046	-	73,046
At end of the year	73,046	2,055,252	2,128,298

There were no movements in deferred tax liabilities for the year ended 31 December 2007.

As at 31 December 2008, deferred tax liabilities were recognised for withholding tax that would be payable on the unremitted earnings that are subject to withholding tax arising from the Group's subsidiaries newly acquired as a consequence of the Very Substantial Acquisition as described in note 1 to the financial statements. In the opinion of the directors, it is probable that these subsidiaries has been distributing such earnings derived since the acquisition date of 25 July 2008 in the foreseeable future. The temporary difference associated with investment in these subsidiaries for which deferred tax liabilities have been recognised totalled HK\$73,046,000.

As at 31 December 2008, no deferred tax assets have been recognised (2007: Nil) in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit is available against which the deductible temporary differences and tax losses can be utilised. Deferred tax assets have not been recognised in respect of the following items:

	2008	2007
	HK\$'000	HK\$'000
Deductible temporary differences	5,039	6,164
Tax losses	223,657	199,940
	228,696	206,104

The Group has tax losses of approximately HK\$4,396,000 (2007: HK\$6,109,000) which shall expire in four to five years and tax losses of approximately HK\$219,261,000 (2007: HK\$193,831,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

20. SHARE CAPITAL

	Number of shares		COMPANY	
	2008	2007	2008	2007
	'000	'000	HK\$'000	HK\$'000
<i>Authorised :</i>				
Ordinary shares of HK\$0.10 each				
At 31 December 2008	5,000,000	5,000,000	5,000,000	5,000,000
<i>Issued and fully paid :</i>				
Ordinary shares of HK\$0.10 each				
At 1 January 2007		2,080,800		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 2007 and 1 January 2008		2,422,388		242,239
Issue of new shares upon conversion of the Notes (Note (c))		17,167		1,717
Placing of shares (note(d))		860,000		86,000
Issue of shares consideration (note (e))		1,260,000		126,000
Issue of new shares upon conversion of share options		5,000		500
At 31 December 2008		4,564,555		456,456

Notes :

- (a) The Company and the placing agent entered into a placing agreement on 15 March 2007 pursuant to which the placing agent conditionally agreed to procure the places for a maximum of 230,000,000 new Shares (the "Placing Shares"), at a price of HK\$2.00 per share. 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) The convertible notes with the principal amount of HK\$300,000,000 (the "Notes") were issued on 20 April 2007 and were convertible into the shares of the Company at the Conversion Price (HK\$2.33 per share) within certain periods and conditions. As at 31 December 2007, the principal amount of HK\$260,000,000 of the Notes was converted into 111,588,000 shares of the Company at the Conversion Price.
- (c) During the year, the Notes with the remaining principal amount of HK\$40,000,000 have been converted into 17,167,000 shares of the Company at the Conversion Price.
- (d) The Company and the placing agent entered into a placing agreement on 15 June 2008 pursuant to which the placing agent agreed to procure the placees for a maximum of 450,000,000 new Shares (the "Placing Shares"), at a price of HK\$4.60 per share. On the same date, the placing agent agreed to place to Fine Power Group Limited, a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited ("Shougang"). Further on 20 June 2008, the Company entered into another placing agreement with the placing agent to procure placee(s) for 410,000,000 shares at the price of HK\$4.8 per share. In relation to these two share placing events, net proceeds of approximately HK\$3.8 billion were received and are mainly used to settle the partial cash consideration for the business combinations as detailed in notes 1 and 21 to the financial statements. Details of the transactions are set out in the Company's announcements dated 21 May 2008, 17 June 2008 and 20 June 2008 respectively.
- (e) On 25 July 2008, the issued share capital of the Company was increased by the issue of 1,260,000,000 ordinary shares of HK\$0.10 each at the price of HK\$4.5 per share pursuant to the Agreement. The issuance of new shares is used as share consideration for the Very Substantial Acquisition as detailed in notes 1 and 21 to the financial statements.

21. BUSINESS COMBINATIONS

On 25 July 2008, the Group completed the Very Substantial Acquisition for a total consideration of HK\$8,343,038,000. Details of net assets acquired and goodwill as at the date of acquisition are as follows:

	HK\$'000
Purchase consideration	
- Cash paid	4,860,000
- Fair value of shares consideration	5,510,413
- Direct cost relating to the Very Substantial Acquisition	73,552
- Purchases of shareholders' loans	(1,134,614)
- Special dividend	20,000
<hr/>	
Total purchase consideration	9,329,351
Less: adjustment to purchase consideration *	(986,313)
<hr/>	
Adjusted purchase consideration	8,343,038
Fair value of assets acquired – as shown below	(6,279,099)
<hr/>	
Goodwill	2,063,939
<hr/>	

* the amount represents total balance to be reimbursed by Mr. Xing to the Group in connection with additional payments levied by the local government authority on the coal mining rights. Details of which are set out in note 15 to the financial statements.

Goodwill is attributable to the high profitability expected to arise after the Very Substantial Acquisition. In the opinion of directors, the fair value of the shares consideration should be determined based on the published share price on the acquisition date with a discount for the restriction arising from six to twelve-month lock-up arrangement.

The fair values of the identifiable assets and liabilities arising from the Very Substantial Acquisition as at the date of acquisition and the corresponding carrying amounts immediately prior to the Very Substantial Acquisition were as follows :

	Fair value HK\$'000	Acquirees' carrying amount HK\$'000
Cash and cash equivalents	19,488	19,488
Property, plant and equipment	1,323,227	1,231,963
Prepaid lease payments	44,497	44,497
Mining rights (note 12)	10,689,739	2,525,244
Interests in associates	19,884	19,884
Inventories	118,679	118,679
Available-for-sale financial assets	454	454
Trade and bill receivables	517,390	517,390
Deposits, prepayments and other receivables	177,417	177,417
Amounts due from connected parties	1,311,791	1,311,791
Amounts due from minority equity holder of subsidiaries	510,235	510,235
Amounts due from fellow subsidiaries	313,351	313,351
Pledged bank deposits	53,834	53,834
Trade and bill payables	(261,163)	(261,163)
Other payables and accruals	(1,703,193)	(1,703,193)
Amounts due to connected parties	(903,272)	(903,272)
Amounts due to ultimate holding company	(625,641)	(625,641)
Amounts due to an associate	(24,649)	(24,649)
Amounts due to fellow subsidiaries	(402,752)	(402,752)
Borrowings	(353,176)	(353,176)
Long term payables	(232,760)	(232,760)
Tax payables	(334,729)	(334,729)
Deferred tax liabilities (note 19)	(2,063,939)	-
Loans from ultimate holding company	(505,035)	(505,035)
Net assets	7,689,677	1,497,857
Minority interests	(1,410,578)	
Net assets acquired	6,279,099	

	HK\$'000
Purchase consideration settled in cash	4,860,000
Direct costs relating to the Very Substantial Acquisition	73,552
Special dividend	20,000
Cash and cash equivalents in subsidiaries acquired	(19,488)
Net cash outflows	4,934,064

Since the Very Substantial Acquisition, the newly acquired subsidiaries contributed revenues of approximately HK\$1,806,265,000 and net profit of approximately HK\$847,122,000 to the Group for the year ended 31 December 2008.

Had the business combination taken place on 1 January 2008, the revenue and the profit of the Group for the year ended 31 December 2008 would have been approximately HK\$3,502,527,000 and HK\$1,577,872,000 respectively. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the Very Substantial Acquisition been completed on 1 January 2008 nor are they intended to be a projection of future results.

22. CAPITAL COMMITMENTS

	2008	2007
	HK\$'000	HK\$'000
Contracted but not provided for :		
- Acquisition of property, plant and equipment	445,302	374,271
- Exploration and design fees for a potential mining project	8,494	8,118
	453,796	382,389

23. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2008, Xingwu and Zhaiyadi executed guarantees with respect to the bank loans and other loans, denominated in RMB872,000,000 and RMB100,000,000 respectively, granted to three independent third parties, under which Xingwu and Zhaiyadi are liable to pay the banks and lenders if the banks and lenders are unable to recover the loans from these third parties. At the balance sheet date, no provision for the Group's obligation under the guarantee contracts has been made as the directors consider that it is not probable that the repayment of the loans will be in default.

CHAIRMAN'S STATEMENT

Honorable shareholders,

On behalf of Fushan International Energy Group Limited (the "Company", together with its subsidiaries, "Fushan Energy" or the "Group"), I hereby present the annual results for the year ended 31 December 2008.

The year of 2008 was the first rewarding year for the Group since its entry into the coal mine business in 2003 and after years of investment. Attributed to the three quality coking coal mines duly acquired by the Group in July 2008, the Group is currently one of the most sizable coal corporations in central-western China. The results of the Year saw a successful turnaround, recording a turnover of approximately HK\$1,897 million, and profit attributable to equity holders was approximately HK\$567 million. Such results are most encouraging to the Group.

Facing the global recession arising from the financial tsunami, it is expected that the estimated Gross National Product of the PRC in 2009 will still outperform countries from other major economies by posting an annual growth up to 8%. In order to stimulate its national economy, the central government spares effort to bring forth the 4 trillion yuan stimulus package to stabilize the economy, expands infrastructural development and boosts employment and domestic demand. The plan will spur growth in the iron and steel industry in line with the infrastructural expansion. Hence, as our coking coal products are the major raw materials in refining quality steels, the Group considers that its market demand and prices are set to sustain a stable momentum, leveraging on the overall infrastructural development and economic recovery in the PRC.

Fushan Energy takes Shanxi Province as its major investment base and is principally engaged in mining of coking coal as well as production and sales of raw and clean coking coal. Three quality coking coal mines in Liulin County of Shanxi Province, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, with an aggregate mining area of approximately 31.89 sq.km and an aggregate raw coal production capacity of 6.3 million tons per annum. In 2008, the total annual production of the three mines operated by our newly acquired three quality coking coal mine in the PRC amounted to approximately 5.4 million tons, of which approximately 2.6 million tons were generated upon the completion of acquisition of these mines last July. In 2008, the pro-forma annual sales and profit after tax of the three mines totaled approximately HK\$3,503 million and approximately HK\$1,578 million respectively, among which approximately HK\$1,808 million of sales and approximately HK\$847million of profit after tax had been accounted for in the annual consolidated results of the Group in 2008. Due to the sound operation of these three quality coking coal mines, the results for the year recorded a turnaround in profitability. These three quality coking coal mines will be the major driver of earnings of the Group in the future.

Fushan Energy has a broad and stable portfolio of clients. To further expand the premium client base of the Group, the Group entered into a long-term strategic cooperation agreement with Shougang Group (“Shougang”), its major customer and one of the largest iron and steel producers in the PRC, and invited Shougang to be a substantial shareholder in July 2008. The Group is also extremely pleased to have gradually allured new customers including sizable iron and steel producers such as Tangshan Iron & Steel (唐山鋼鐵), Wuhan Iron & Steel (武漢鋼鐵) and Taiyuan Iron & Steel (太原鋼鐵), etc. Such an array of measures laid a solid foundation for the Group to consolidate its customer base, expand production and sales of clean coal and seek a new source of income.

In recent years, the coal industry of the PRC has been in the midst of shifting from industrial integration to capital integration, during which the PRC Central Government decided to foster integration in the coal industry and gradually close small coal mines. To the Company, challenges and opportunities coexist. We believe that the PRC Central Government integration policy of closing the small coal mines in the PRC before the end of 2010 will be favourable to the development of coking coal manufactures of such production scale as Fushan Energy. In light of the recovery and increase in market demand for coking coals under the PRC Central Government’s economic stabilization strategy, the coking coal price is poised to surge.

Looking forward in 2009, despite the global economic downturn, the Group is actively expanding its sales network from coke plants to large-scale iron and steel producers. The Group will maintain stable development in its coking coal business by formulating effective business and pricing strategies to uphold the quality of the Group’s products. Three new coal preparation plants of the Group, namely Jinjiazhuang Coal Preparation Plant, Zhaiyadi Coal Preparation Plant and Jinshan Coal Preparation Plant will commence production successively in 2009 in order to further diversify its product mix and increase the sales of clean coal which commands higher profit margin. It is estimated that the annual processing volume of the Group will then reach 8 million tons. Such plan has proven that the Group places its core presence in the coking coal realm, bringing Fushan an integrated production chain of coal mine resources and coal preparation plants.

Lastly, on behalf of all members of the Board of Fushan Energy, I would like to express my heartfelt gratitude to all shareholders, the Board members, management team and staff of the Group for their support and contributions to the Group throughout the years. Being one of the largest coking coal enterprises in central western China, the Company will proactively implement its merger and acquisition strategy, speed up the application procedures of mining rights certificate for the new coal mine, duly perform its social responsibility and put efforts in production safety and environmental protection. Besides, the Group will enhance investors’ confidence by improving its corporate governance.

CAO Zhong

Chairman

Hong Kong, 16 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2008, the Company (“Fushan Energy”) attained a significant breakthrough in its core businesses. In June 2008, the Group entered a long-term strategic cooperation agreement with Shougang Holding (Hong Kong) Limited (“Shougang”), the group company of Shougang Corporation, one of the largest iron and steel manufacturers in China. Such move introduced Shougang as the strategic investor of the Group, with whom a sales agreement was entered into. In order to build a closer rapport with customers and develop production and sales of clean coal as well as sources of sales, the Group also entered into sales agreements with a number of sizable national iron and steel manufacturers such as Tangshan Iron & Steel (唐山鋼鐵) and Inner Mongolia Baogang (內蒙包頭鋼鐵).

In July 2008, Fushan Energy successfully acquired three quality coking coal mines located in Liulin County of Shanxi Province, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, which encompass an aggregate mining area of 31.89 sq.km and an aggregate raw coal production capacity of 6.3 million tons per annum. Such move laid a keystone for the Group’s business development in the coking coal realm, bringing Fushan Energy a production chain of coal mine resources and coal preparation plants.

Since completion of the above acquisition of the three PRC subsidiaries which operated the three quality coking coal mines mentioned above on 25 July 2008 (“Completion Date”), the Group has operated its coal mining business and the production of coal preparation plants in Shanxi Province. Mining activities of the three coking coal mines are mechanically automated and monitored by central computerized systems, resulting in a boost in capacity and compliance with the safety, environment and equipment requirements in the PRC. The three quality coking coal mines had brought a net aggregate profit of over approximately HK\$847 million to the Group in mere five months after the completion of such acquisition.

Financial Review

As at 31 December 2008, the Group recorded a turnover of approximately HK\$1,897 million, representing an significant increase of approximately 126 times over approximately HK\$15 million in the same period of 2007. The substantial growth in turnover was attributable to the significant contribution of income to the Group from the three quality coking coal mines acquired in July 2008. In addition, the Group has recorded a turnaround in profitability and substantial net profits of approximately HK\$707 million for the year ended 31 December 2008 when compared with the net loss of approximately HK\$86 million for the year ended 31 December 2007. For the year ended 31 December 2008, the Group recorded net profits attributable to the equity holders of the Company of HK\$568 million.

Cost of Sales

During the period under review, cost of sales was approximately HK\$660 million, representing an increase of approximately HK\$647 million or approximately 51 times, as compared with approximately HK\$13 million of the same period in 2007. The significant increase was due to increase in the turnover and was mainly attributable to significant contribution of cost of sales to the Group from the three quality coking coal mines acquired in July 2008 during the period under review.

Depreciation of property, plant and equipment in 2008 was approximately HK\$63 million, representing an increase of approximately HK\$60 million or approximately 21 times as compared with approximately HK\$3 million of the same period in 2007. The increase was mainly attributable to the addition of property, plant and equipment through the acquisition of the three quality coking coal mines by approximately HK\$1,323 million and through other additions by approximately HK\$605 million during the period under review.

Amortisation of mining rights in 2008 was approximately HK\$98 million, which was solely attributable to the additional carrying amount of mining rights of approximately HK\$10,690 million from the acquisition of the three quality coking coal mines.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit in 2008 was approximately HK\$1,237 million, representing a significant increase of approximately HK\$1,235 million or approximately 669 times as compared with approximately HK\$1.85 million of the same period in 2007. During the period under review, the gross profit margin achieved at 65% compared with 12% in the same period of 2007.

Other Operating Income

During the period under review, other operating income was approximately HK\$48 million, representing an increase of approximately HK\$32 million or approximately 3 times as compared with approximately HK\$15 million of the same period in 2007. The increase was mainly attributable to the gain on sales of purchased coal and sales of scrapped products generated from the three quality coking coal mines and the coke plant.

Selling and distribution expenses

During the period under review, selling and distribution expenses was approximately HK\$60 million which was mainly attributable to the three quality coking coal mines.

General and Administrative Expenses

During the period under review, administrative expenses were approximately HK\$141 million, representing an increase of approximately HK\$99 million or approximately 3 times as compared with approximately HK\$42 million of the same period in 2007. The increase was mainly attributable to the three quality coking coal mines.

Other Operating Expenses

During the period under review, other operating expenses were approximately HK\$43.9 million, representing an increase of approximately HK\$26.4 million or approximately 2.5 times as compared with approximately HK\$17.5 million of the same period in 2007. The increase was mainly attributable to the three quality coking coal mines and coke plant.

Finance costs

During the period under review, finance costs were approximately HK\$91.3 million, representing an increase of approximately HK\$68.8 million or approximately 4 times as compared with approximately HK\$22.5 million of the same period in 2007. The increase in finance costs was due to the increase in total borrowings from approximately HK\$218.6 million in 2007 to approximately HK\$1,626 million in 2008, of which, approximately HK\$1,110 million was solely for used to finance part of the consideration for the acquisition of three quality coking coal mines.

Taxation

During the period under review, taxation was approximately HK\$226 million, of which approximately HK\$73 million representing the provision of withholding tax on the attributable earnings arising from the three quality coking coal mines in accordance with the applicable PRC laws in the PRC, which was mainly attributable to the three quality coking coal mines.

The Company's Shareholder's Attributable Profits

By reason of the foregoing, the Company's shareholder's attributable profits in the period under review was HK\$568 million or HK16.86 cents per share, as a result of the turnaround from the Company's shareholder's attributable net loss of HK\$78 million in 2007 to net profit of HK\$568 million in 2008.

Introduction of Substantial Shareholders and Other Shareholders

On 15 June 2008, the Company entered into a long term strategic cooperation agreement with Shougang, pursuant to which the Company placed 450 million shares to Shougang at the placing price of HK\$4.6 per share and raised a total of HK\$2.07 billion, representing 10.84% of the enlarged share capital in issue of the Company as at 15 June 2008. On 20 June 2008, the Company entered into the Second Placing Agreement, pursuant to which the Company placed 410 million placing shares, of which 100 million placing shares were placed to Mr. Wong Lik Ping ("Mr. Wong"), a controlling shareholder and Chairman of the Company as at the date of the above mentioned agreements, and 310 million to other independent professional and institutional investors.

After completion of these two placings and the acquisition agreement (the “Acquisition Agreement”) in relation to the acquisition of the three coking coal mine companies in the PRC on 25 July 2008 (“Completion Date”), shareholding of Mr. Wong was diluted from 50.83% to 31.01 % and shareholding of Mr. Xing Libin, the majority shareholder of acquired three coal mines, was 14.68%, while Shougang became the third largest shareholder with a shareholding of 9.87% as at the date of completion of the Acquisition Agreement .

Material acquisitions and disposals

The Group places a clear focus on the development of high quality coking coal business and make effort to complete industry chain to enhance its position in the coking coal industry. On Completion Date, the Company duly completed the acquisition of three quality coking coal mines in the PRC, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, located in Liulin County of Shanxi Province. Pursuant to the Acquisition Agreement, the total consideration of such merger and acquisition was HK\$10.53 billion, of which HK\$5.67 billion was paid to the seller by issuing 1.26 billion new shares by the Company at a price determined at HK\$4.50 per share; while the remaining sum of HK\$4.86 billion was paid by the net cash proceeds received from the placing 450 million shares at a price of HK\$4.6 per share to Shougang and the placing 410 million new shares at a price of HK\$4.8 per share to independent professional and institutional investors by the Company respectively as mentioned in the sub-section headed **“Introduction of Substantial Shareholders and Other Shareholders”** in this announcement. Since 25 July 2008, these three newly acquired mines companies in the PRC became the subsidiaries of the Company and their financial statements have been consolidated into the financial statements of the Group. The turnaround of financial results from net loss of HK\$86 million for the year ended 31 December 2007 to net profit of HK\$707 million for the year ended 31 December 2008 was mainly attributable to the significant net profits contributed from these three quality coking coal mines during the period from 25 July 2008 to 31 December 2008. Details of the transaction are set out in the announcement and the circular of the Company dated 21 May 2008 and 26 June 2008 respectively.

The total production volume of these three coking coal mines amounted to 5.4 million tons during the year ended 31 December 2008, of which 2.6 million tons of coal were produced from the Completion Date to 31 December 2008. These three quality coking coal mines would record an aggregate pro-forma profit of approximately HK\$1,578 million for the full financial year ended 31 December 2008, of which an aggregate profit of approximately HK\$847million generated from 25 July 2008 and 31 December 2008 was consolidated into the profits of the Group.

As the coke plant held by 太原西山日盛煤焦有限公司 (Taiyuan Xishan Risheng Coal and Coking Co., Limited) (“Risheng”) located in Gujiao, Shanxi Province is relatively far away from the three newly acquired coking coal mines in July 2008, the Group entered into a conditional sales and purchase agreement with other shareholder of Risheng to sell, inter alia, its 70% equity interest in Risheng to such shareholder during the year at a consideration of approximately RMB110 million. Details of the transaction are set out in the announcement and the circular of the Company dated 23 April 2009 and 29 December 2008 respectively. As at 31 December 2008, the disposal had not yet completed.

In July 2008, the Group increased its shareholding in Shanxi Jinshan Energy Limited (“Jinshan”) from 91.25% to 94.17% by its increasing its registered capital contribution of RMB200 million in the Jinshan. In turn, the Group’s effective equity interest in Liulin Luenshan Coking Coal Limited, directly held by Jinshan, was increased to 61.21%.

Sales Agreement

Since the completion of the Acquisition Agreement, besides its existing customers, the Group has also entered into certain sales contracts of clean coking coals with two new sizeable iron and steel plants in the PRC. Pursuant to the sales contracts entered with such plants, the Group supplied 15,000 tons of clean coking coal to the one sizeable iron and steel plant per month since 1 September 2008 and supplied 30,000 tons of clean coking coal to the another iron and steel plant per month since 15 October 2008.

Safety Production

To ensure safe and smooth operation through utilization of large and small fixtures, a computer control room was set up to direct and oversees the operation program. A low concentration level of gas in air was maintained by large scale of ventilation system and large scale water pumps prevented accidents resulting from water leakage. During the period under review, coking coal mines owned and operated by the Group had no record of fatalities and there were rare occurrence of major injuries.

Environmental Protection

The Group realises its responsibility of environmental protection. Hence, the Group has actively fulfilled its obligation of environmental protection and adopted environmental-friendly measures in compliance with the applicable laws. During the period under review, the Group employed effective measures for environmental management, prevention of surface land subsidence, soil and water conservation, waste rock disposal control, water resource protection, air pollution control and noise abatement. Through on-site survey before the acquisition performed by professional technical advisor, namely John T. Boyd Company was satisfied with the performance of three new acquired coking coal mines in environmental protection.

Charges on Assets

As at 31 December 2008, save for the aggregate net carrying amount of HK\$11,054 million was pledged for a loan of HK\$1,110 million, none of the Group's assets was charged or subject to any encumbrance. The loan of HK\$1,110 million was solely used to finance part of the consideration for the acquisition of three quality coking coal mines.

Contingent Liabilities

As at 31 December 2008, save for the guarantees given by Shanxi Liulin Xingwu Coalmine Company Ltd. ("Xingwu") and Shanxi Liulin Zhaiyadi Coal Company Ltd. ("Zhaiyadi") amounting to approximately RMB872 million and RMB100 million respectively which were entered prior to the completion of the acquisition of Xingwu and Zhaiyadi, with respect to the bank loans and other loans to their independent third customers, there were no guarantees given to any banks or financial institutions by the Group. As at 31 December 2008, there was no default in the repayment of the respective loans. No new guarantees or renewal of these guarantees would be anticipated upon the expiry of the guarantees given by Xingwu and Zhaiyadi. As at the date of this announcement, guarantees of RMB100 million have been expired and released.

Gearing Ratio

As at 31 December 2008, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by the total equity, was approximately 13.06%. The borrowings were mainly used to finance part of the consideration for the acquisition of three quality coking coal mines as mentioned above and certain construction and installation of coke plant and machinery of a subsidiary in the PRC.

Exposure to Fluctuations in Exchange Rates

As at 31 December 2008, other than assets and liabilities denominated in Renminbi, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

As at 31 December 2008, the Group's current ratio (current assets divided by current liabilities) was approximately 0.91 and the Group's cash and bank deposits amounted to approximately HK\$929 million, of which approximately HK\$169 million was deposited to secure loan facilities of HK\$1,110 million.

On 25 July 2008, the Company raised approximately HK\$4.04 billion by way of placing 450 million shares at a price of HK\$4.6 per share to Shougang and placing 410 million new shares at a price of HK\$4.8 per share to independent professional and institutional investors respectively. On the same date, the Company also issued 1.26 billion new shares at the issue price of HK\$4.5 per share for the settlement of HK\$5.67 billion, being part of the consideration of three quality coking coal mines as mentioned above.

Capital structure

The Group considers total equity, bank loans and other borrowings as capital. As at 31 December 2008, the amount of capital was approximately HK\$14,075 million.

As at 31 December 2008, the issued capital of the Company was approximately HK\$456 million. Apart from the issue of new placing shares and consideration shares as mentioned above, the Company also issued 17,167,381 shares and 5,000,000 shares of Company with par value of HK\$0.1 each at a consideration of HK\$2.33 per share upon the conversion of face value of HK\$40,000,000 of the convertible notes and each at an exercise price of HK\$1.5 per share upon the exercise of the granted options during the period under review.

During the period under review, the total borrowings denominated in RMB which are repayable within 5 years from the balance sheet date, amounted to approximately HK1,626 million. All the borrowings were subject to fixed interest rates.

Employees

The Group had 9 Hong Kong employees and 5,498 PRC employees at 31 December 2008 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for its Hong Kong employees and the state-sponsored retirement plan for its PRC employees. The Group has also adopted share option scheme since 20 June 2003. During the period under review, no share option was granted.

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31 December 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 1 June 2009 to 2 June 2009 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for entitlement to attend and vote at the forthcoming annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30pm on 29 May 2009.

FUTURE PROSPECTS

Looking ahead, the world economy is expected to stay grim in 2009. The operation of the coal industry in the PRC will still be facing a difficult and challenging environment. A RMB4 trillion economic stimulus plan was launched by the PRC Government as boosters of the economy, the infrastructure project development and the employment and domestic demand. Support to the steel industry provided under such policy is also favourable to the coal industry which produces raw materials for steel. Meanwhile, consolidation of the coal industry will be fostered by the PRC government in 2009 by the further shut down of small mines and suspension of new applications for coal exploration rights until March 2011 in the PRC. As the supply of coking coal in the PRC is expected to be tightened through such resources integration, coking coal suppliers like Fushan Energy with established production scale will be benefited from such plan.

Facing year of 2009 where both opportunities and challenges coexist, the Group will continue to focus on the production and investment in Shanxi Province, the PRC. Taking advantage of the operating expertise, professional technology, extensive sales channels and support in infrastructure construction, coupled with the scale of economy enhanced by the Group, the Company's future development will accelerate and the operating efficiencies and competitiveness of the Company's existing business will elevate.

In terms of business development, the Group will press ahead with its proactive expansion of production capacity. At present, the three new coal preparation facilities under construction in Shanxi Provinces namely the Jinjiazhuang Coal Preparation Plant, Zhaiyadi Coal Preparation Plant and Jinshan Coal Preparation Plant are still under the construction and expected to commence production in 2009 and till then, the Group's annual processing production capacity of clean coal is expected to increase to approximately 10 million tons. The construction of Jinjiazhuang Coal Preparation Plant which is in the proximity of the Jinjiazhuang Coal Mine and has an annual processing capacity of 3 million tons is expected to be completed in the first quarter of 2009. The construction of Zhaiyadi Coal Preparation plant which is also in the proximity of the Zhaiyadi Coal Mine and has an annual processing capacity of 2.1 million tons is expected to be completed in the forth quarter of 2009. The construction of Jinshan Coal Preparation Plant which is located in Guojiagou of the Liulin County and has an annual processing volume of 5 million tons is expected to be completed in the fourth quarter of 2009.

The Group is actively developing a sales network with sizable iron and steel manufactures apart from coke plants whilst formulating effective business and pricing strategies with reference to the excellent quality of the Company's products, with a view to facilitating a sustainable development in its coking coal business. Pursuant to the long-term strategic cooperation agreement entered into with Shougang in 2008 and the new sales agreements entered into with Tangshan Iron & Steel (唐山鋼鐵), Wuhan Iron & Steel (武漢鋼鐵), Inner Mongolia Baogang (內蒙包鋼) and Taiyuan Iron & Steel (太原鋼鐵), Fushan Energy is expected to change its customer bases to the sizable iron and steel manufactures in 2009. Such move will not only expand the premier customer base of

the Company and bring new source of income to the Company's coking coal business but also increase the sales proportion of clean coal which commands a higher selling price, thereby enhancing the profitability of the Group.

In order to reinforce its transportation capacity, the Group plans to establish a railway which connects its coal mines with the national railways. Meanwhile, it is engaging in active discussion with the relevant PRC authorities for the possibility of reorganization of resources so as to expand its coal resources.

For the expansion of the production capacity of its existing coal mines and new coal mine resources, the Group has taken the initiative to negotiate with coal mine operations in relation to the merger and acquisition arrangement. It has also discussed the possibility of acquiring reorganized resources from the PRC relevant authorities. Meanwhile, it aspires to obtain new mining certificates for mining of new coal mines in order to enlarge the coal mine resources of the Group and strengthen its presence and long-term plans in the coal industry.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its securities during the year ended 31 December 2008. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year ended 31 December 2008.

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 2008, 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules")

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 "Modal Code"). The Company has made enquiries with all directors of the Company and they confirmed that they have complied with the Model Code during the year ended 31 December 2008.

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 2008 (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 despatched to the shareholders of the Company and published on the website of The Stock Exchange of the Hong Kong limited at www.hkex.com.hk and on the website of the Company at www.fushan.com.hk in due course.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on 2 June 2009. Notice of the annual general meeting will be published and despatched in the manner as required by the Listing Rules.

APPRECIATION

Since successfully acquired three quality coking coal mines, a turnaround of financial results from net loss to net profit for the year ended 31 December 2008 was achieved, which was mainly contributed from the significant net profits generated from three quality coking coal mines acquired on 25 July 2008. Our Group has made 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.

CAO Zhong

Chairman

Hong Kong, 16 April 2009

As at the date of this announcement, the Board comprises Mr. Cao Zhong, Mr. Wong Lik Ping, Mr. So Kwok Hoo, Mr. Xue Kang and Mr. Liu Qingshan as executive directors of the Company; Mr. Chen Zhouping, Mr. Leung Shun Sang Tony and Mr. Shi Jianping as non-executive directors of the Company; and Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam as independent non-executive directors of the Company.