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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

#### FINANCIAL HIGHLIGHTS

- Record 2009 interim net profit after tax of HK\$920 million – turnaround in its profitability from 2008 interim net loss, up HK\$213 million or 30% on the 2008 full year net profit.
- Record 2009 interim net profits attributable to equity holders of the Company (“Shareholders”) of HK\$769 million – turnaround in its profitability from 2008 interim net loss attributable to Shareholders, up HK\$201 million or 35% on the 2008 full year net profits attributable to Shareholders.
- Gross profit achieved at 72% in 2009 interim results while at 4% in 2008 interim results and at 65% in the 2008 full year results.
- 2009 interim EBITDA<sup>1</sup> of HK\$1,445 million – up HK\$259 million or 22% on 2008 full year EBITDA.
- 2009 interim basic earnings per share was HK16.82 cents.
- 2009 interim dividend was HK10 cents per share.
- Net assets of HK\$13,119 million as at 30 June 2009 while HK\$12,449 million as at 31 December 2008.
- Gearing ratio<sup>2</sup> was 8% as at 30 June 2009 while 13% as at 31 December 2008.

Note:

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

2. Gearing ratio is computed from total borrowing divided by total equity.

#### INTERIM RESULTS

The board of directors (the “Directors”) of Fushan International Energy Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively as the “Group”) for the six months ended 30 June 2009. These interim results have been reviewed by the Audit Committee of the Company and the Auditors of the Company.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
<b>Revenue</b>	3	<b>2,080,794</b>	4,436
Cost of sales		(576,058)	(4,276)
<b>Gross profit</b>		<b>1,504,736</b>	160
Other operating income		18,218	1,796
Selling and distribution expenses		(96,132)	-
General and administrative expenses		(110,777)	(24,564)
Other operating expenses		(111,097)	(3,584)
<b>Operating profit/(loss)</b>		<b>1,204,948</b>	(26,192)
Gain on disposal of a subsidiary	4	29,542	-
Finance costs	5	(98,469)	(4,672)
Share of loss of associates		(106)	-
<b>Profit/(Loss) before income tax</b>	6	<b>1,135,915</b>	(30,864)
Income tax expense	7	(215,828)	-
<b>Profit/(Loss) for the period</b>		<b>920,087</b>	(30,864)
<b>Other comprehensive (loss)/income, net of tax</b>			
Exchange differences on translation of financial statements of foreign operations		(19,134)	22,683
<b>Total comprehensive income/(loss) for the period</b>		<b>900,953</b>	(8,181)
<b>Profit/(Loss) attributable to:</b>			
Equity holders of the Company		768,506	(19,630)
Minority interest		151,581	(11,234)
<b>Profit/(Loss) for the period</b>		<b>920,087</b>	(30,864)
<b>Total comprehensive income/(loss) attributable to:</b>			
Equity holders of the Company		751,444	815
Minority interest		149,509	(8,996)
		<b>900,953</b>	(8,181)
<b>Dividends</b>	8	<b>499,596</b>	-
<b>Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the period</b>			
- Basic	9	HK16.82 cents	(HK0.80cent)
- Diluted		HK16.69 cents	N/A

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 June 2009

	<i>Notes</i>	<b>At 30 June 2009 (Unaudited) HK\$'000</b>	<b>At 31 December 2008 (Audited) HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,215,632	2,062,535
Prepaid lease payments		60,993	61,819
Mining rights		10,397,017	10,545,819
Goodwill		2,076,476	2,079,145
Interests in associates		19,442	19,573
Available-for-sale financial assets		8,393	8,403
Deposits, prepayments and other receivables		326,158	264,665
Amount due from a connected party		218,428	218,712
		<b>15,322,539</b>	<b>15,260,671</b>
<b>Current assets</b>			
Inventories		218,104	187,465
Trade and bill receivables	<i>10</i>	1,156,257	999,408
Deposits, prepayments and other receivables		167,345	215,801
Amount due from a director		39,694	-
Amounts due from connected parties		1,234,975	1,495,944
Pledged bank deposits		506,007	168,941
Cash and cash equivalents		437,362	760,163
Assets classified as held for sale		-	163,875
		<b>3,759,744</b>	<b>3,991,597</b>
<b>Current liabilities</b>			
Liabilities directly associated with assets classified as held for sale		-	29,238
Trade and bill payables	<i>11</i>	744,505	380,795
Other payables and accruals		1,429,725	1,819,680
Borrowings		1,046,823	1,590,917
Amount due to a director		-	20,000
Amounts due to connected parties		23,592	51,137
Amounts due to related companies		12,714	12,316
Amounts due to minority equity holders of subsidiaries		148,520	97,203
Tax payables		270,922	399,966
		<b>3,676,801</b>	<b>4,401,252</b>
<b>Net current assets/(liabilities)</b>		<b>82,943</b>	<b>(409,655)</b>
<b>Total assets less current liabilities</b>		<b>15,405,482</b>	<b>14,851,016</b>
<b>Non-current liabilities</b>			
Borrowings		16,946	35,171
Other long term payables		239,368	238,550
Deferred tax liabilities		2,029,864	2,128,298
		<b>2,286,178</b>	<b>2,402,019</b>
<b>Net assets</b>		<b>13,119,304</b>	<b>12,448,997</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 June 2009

	<i>Notes</i>	<b>At 30 June 2009 (Unaudited) HK\$'000</b>	At 31 December 2008 (Audited) HK\$'000
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	12	458,196	456,456
Reserves		<b>11,141,064</b>	10,365,283
		<b>11,599,260</b>	10,821,739
<b>Minority interest</b>		<b>1,520,044</b>	1,627,258
<b>Total equity</b>		<b>13,119,304</b>	12,448,997

**NOTES TO THE INTERIM 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 activities of the Group's subsidiaries comprise coking coal mining, the production and sale of coking coal products and side products. The Group's principal places of the business are in Hong Kong and in the People's Republic of China (the "PRC").

The principal activity of the Company is investment holdings. On 25 July 2008, one of the wholly-owned subsidiaries, Jade Green Investments Ltd ("Jade Green") and Mr. Wong Lik Ping ("Mr. Wong"), one of the substantial shareholders, entered into a sale and purchase agreement (the "Agreement") with Mr. Xing Libin ("Mr. Xing"), the controlling shareholder of Fortune Dragon Group Limited ("Fortune Dragon") completed its acquisitions of 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"). Since then, these companies became the subsidiaries of the Group. These companies are all engaged in coking coal mining and production and sales of raw and clean coking coal in the PRC through their non-wholly owned PRC subsidiaries, each of which has coalmines. 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 acquisition were set out in the Company's circular dated 25 June 2008.

On 15 January 2009, one of the Group's subsidiaries, Shanxi Jinshan Energy Limited ("Jinshan") completed the disposals of its 70% equity interest in Taiyuan Xishan Risheng Coal and Coking Company Limited ("Risheng") to a subsidiary of the minority shareholder of Risheng to dispose of its 70% equity interest in Risheng (the "Disposal") for a consideration of RMB110 million (HK\$125 million equivalent), represented the aggregate consideration payable for the 70% equity interest of Risheng and the assumption of Riseng Loans (as defined in the Company's announcement dated 23 April 2008 (the "Announcement")). Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal were set out in the circular of the Company dated 29 December 2008.

Other than above, there were no significant changes in the Group's operations during the period.

## 2. Basis of preparation and principal accounting policies

This unaudited interim financial statements of the Group for the six months ended 30 June 2009 (the “Unaudited Interim Financial Report”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The Unaudited Interim Financial Report has been reviewed by our auditors in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The Unaudited Interim Financial Report has been prepared in accordance with the accounting policies and method of comparatives used in the annual financial statements of the Company for the year ended 31 December 2008 (the “2008 Annual Financial Statements”), except for the adoption of the new or amended Hong Kong Financial Reporting Standards (“HKFRSs”), which include individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Int”) as disclosed below. The Unaudited Interim Financial Report does not include all the information and disclosures required in the 2008 Annual Financial Statements, and should be read in conjunction with the 2008 Annual Financial Statements.

The Unaudited Interim Financial Report was approved for issue by the board of directors on 22 September 2009.

In the current period, the Group applied for the first time the following new or amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual financial period beginning on 1 January 2009.

- HKAS 1 (Revised 2007) Presentation of financial statements
- HKAS 23 (Revised) Borrowing costs
- HKAS 32, HKAS 39 & HKFRS 7 (Amendments) Puttable financial instruments and obligations arising on liquidation
- HKFRS 1 and HKAS 27 (Amendment) Cost of an investment in a subsidiary, jointly controlled entity or an associate
- HKFRS 2 (Amendment) Share-based payment - vesting conditions and cancellations
- HKFRS 8 Operating segments
- HK(IFRIC) – Int 13 Customer loyalty programmes
- HK(IFRIC) – Int 15 Agreements for the construction of real estate
- Amendments to HK(IFRIC) – Int 9 and HKAS 39 Embedded derivatives
- Various – Annual improvements to HKFRSs 2008

Other than as noted below, the adoption of these new or amended HKFRSs has had no material effect on the Unaudited Interim Financial Report.

## 2. Basis of preparation and principal accounting policies (Continued)

### *HKAS 1 (Revised 2007) Presentation of financial statements*

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, the exchange difference on translation of foreign operations that was recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard.

### *HKAS 27 Amendments – Cost of an investment in a subsidiary*

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in the income statement irrespective the distributions is out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Group recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in the income statement.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

### *HKFRS 8 Operating segments*

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous years, segments were identified by reference to the dominant source and nature of the Group's risks and returns.

The Group has not early adopted the following new and amended HKFRSs, which have been published but are not yet effective.

HKAS 27 (Revised)	Consolidated and separate financial statements <sup>1</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>1</sup>
HKFRS 1 (Revised)	First-time adoption of Hong Kong Financial Reporting Standards <sup>1</sup>
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions <sup>3</sup>
HKFRS 3 (Revised)	Business combinations <sup>1</sup>
HK(IFRIC) – Int 17	Distributions of non-cash assets to owners <sup>1</sup>
HK(IFRIC) – Int 18	Transfer of assets from customers <sup>2</sup>
Various	Annual improvements to HKFRS 2009 <sup>4</sup>

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

2 Effective for transfer received on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 January 2010

4 Generally effective for annual periods beginning on or after 1 January 2010 unless otherwise stated in the specific HKFRS

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

### 3. Revenue and segment reporting

The Group manages its businesses by business lines (products and services). On its first-time adoption of HKFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group's management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments:

- Coking coal mining: Mining and exploration of coal resources and production of raw coking coal and clean coking coal in the PRC
- Coke production: Production of coke in the PRC

In accordance with HKFRS 8, segment information disclosed in the Unaudited Interim Financial Report has also been presented in a manner to enable the Group management to monitor the results, assets and liabilities attributable to the above reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

	Coal mining		Coke production*		Six months ended	
	Six months ended		Six months ended		30 June	
	30 June		30 June		30 June	
	2009	2008	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>						
Sales to external parties	<b>2,040,780</b>	4,436	<b>40,014</b>	-	<b>2,080,794</b>	4,436
<b>Segment results</b>	<b>1,253,683</b>	160	<b>(36,301)</b>	(9,929)	<b>1,217,382</b>	(9,769)
Unallocated income and expenses					<b>(12,434)</b>	(16,423)
Operating profit/(loss)					<b>1,204,948</b>	(26,192)
Gain on disposal of a subsidiary					<b>29,542</b>	-
Finance costs					<b>(98,469)</b>	(4,672)
Share of loss of associates					<b>(106)</b>	-
<b>Profit/(Loss) before income tax</b>					<b>1,135,915</b>	(30,864)
Income tax expense					<b>(215,828)</b>	-
<b>Profit/(Loss) for the period</b>					<b>920,087</b>	(30,864)

\* The Group commenced the production of coke in July 2008.

#### 4. Gain on disposal of a subsidiary

As described in note 1 to the Unaudited Interim Financial Report, on 15 January 2009, the Group completed the Disposal to a subsidiary of the minority shareholder of Risheng, at a total 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 were set out in the circular of the Company dated 29 December 2008. Since then, Risheng ceased to be a subsidiary of the Company.

Pursuant to the Disposal, Jinshan agreed to assume the Risheng loans (as defined and described in the "Announcement") in Risheng's books due to various creditors. As at 19 April 2008, Jinshan and Mr. Wong, a shareholder and director of the Company, amongst others, also entered into the Loan Novation Agreements (as also defined and described in the Announcement) with two creditors, under which upon completion of the Disposal, Mr. Wong agreed to assume the liabilities in the aggregate amount of RMB35 million (approximately HK\$40 million) owed by Jinshan to two creditors for nil consideration. Thus, a gain on disposal of Risheng of HK\$29,542,000 was recognised during the period.

Net assets of Risheng at the date of disposal on 15 January 2009 were as follows:

	<b>(Unaudited)</b> <b>HK\$'000</b>
Net assets disposed of:	
Property, plant and equipment	164,217
Deposits and other receivables	6
Bank and cash balances	115
Amount due to minority equity holders	(2,268)
Other payables	(168,762)
	<u>(6,692)</u>
Minority interest	(437)
Loan Novation under the Loan Novation Agreements	39,694
Gain on disposal of a subsidiary	29,542
Total consideration	<u><u>62,107</u></u>
Satisfied by:	
Cash consideration	124,754
Less: liabilities assumed by Jinshan	(102,341)
	<u>22,413</u>
Loan Novation under the Loan Novation Agreements	<u>39,694</u>
	<u><u>62,107</u></u>
An analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:	
Cash consideration	124,754
Bank and cash balances disposed	(115)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u><u>124,639</u></u>

**5. Finance costs**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest charges on:		
- bank loans repayable within five years	76,162	2,309
- other loans wholly repayable within five years	6,881	3,282
- amounts due to minority equity holders of subsidiaries wholly repayable within five years	897	878
- convertible notes wholly repayable within five years	-	103
- early redemption of bill receivables	14,321	-
- finance charges on finance leases	208	-
	<u>98,469</u>	<u>6,572</u>
Less: interest capitalised in construction in progress*	-	(1,900)
Total finance costs	<u>98,469</u>	<u>4,672</u>

\*The borrowing costs were capitalised at the rates ranging from 6.00 % to 7.00% per annum for the six months ended 30 June 2008.

**6. Profit/(Loss) before income tax**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit/(Loss) before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	576,058	4,276
Amortisation of		
- prepaid lease payments	752	183
- mining rights	135,105	-
Depreciation of property, plant and equipment		
- owned assets	74,220	1,395
- leased assets	819	-
Employee benefit expenses (including directors' remuneration, share-based compensation expense and retirement benefits scheme contributions)	123,695	16,523
Operating lease charges in respect of land and buildings	9,163	412
Write-down of inventories to net realisable value	19,307	-
Other operating income		
- bank interest income	(2,120)	(1,524)
	<u>(2,120)</u>	<u>(1,524)</u>

**7. Income tax expense**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current tax – PRC income tax	238,547	-
Deferred tax	(22,719)	-
	<u>215,828</u>	<u>-</u>

## 7. Income tax expense (Continued)

No provision for Hong Kong Profits Tax has been provided in the Unaudited Interim Financial Report as the Group had no assessable profit arising in Hong Kong for the six months ended 30 June 2009 and 2008.

In accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Group's certain subsidiaries, namely Xingwu, Jinjiazhuang and Zhaiyadi, all established in the PRC, are entitled a 50% relief from the corporate income tax for the three subsequent years ending 31 December 2010. Thus, the enterprise income tax rate for the calendar years from 2008 to 2010 is 12.5%. From the calendar year of 2011 onwards, the enterprise income tax rate for the Group's PRC subsidiaries shall become 25% without any exemption.

In accordance with the relevant enterprise income tax law in the PRC, 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, for the period. The Group is therefore liable to withholding taxes on dividends distributed by its major PRC subsidiaries, in respect of earnings from which generated.

## 8. Dividends

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend of HK10 cents per share (2008: nil)	<u><b>499,596</b></u>	<u><b>-</b></u>

The interim dividend was declared and will be paid subsequent to the balance sheet date. The balance has not yet been recognised as a liability in the Unaudited Interim Financial Report.

The interim dividend for 2009 will be payable on 22 October 2009 to all equity holders of the Company on the register of members of the Company at the close of business on 9 October 2009. As at the date of the Unaudited Interim Financial Report, the number of the issued share capital of the Company is 4,995,955,352.

## 9. Earning/(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:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Profit/(Loss) attributable to equity holders of the Company	<u><b>768,506</b></u>	<u>(19,630)</u>
<b>Number of shares</b>	<b>'000</b>	'000
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<b>4,568,042</b>	2,438,801
Effect of dilutive potential ordinary shares:		
- Share options	<u><b>36,065</b></u>	<u>-</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u><b>4,604,107</b></u>	<u>2,438,801</u>

Note:

Diluted loss per share for the six months ended 30 June 2008 is not presented because the impact of the exercise of the share options is anti-dilutive.

Subsequent to the balance sheet date and up to the date of the Unaudited Interim Financial Report, 400,000,000 new shares of the Company were issued on 28 July 2009 under the Placing and Subscription Agreement and 14,000,000 new shares of the Company were issued upon the exercise of granted share options by option holders. As a result, the Company's issued ordinary shares have increased and potential ordinary shares have decreased accordingly after the balance sheet date. Details of the transactions in relation to the issue of new shares are set out in Note 15(a) and Note 15(d) to Unaudited Interim Financial Report. As at the date of the Unaudited Interim Financial Report, the number of the issued share capital of the Company is 4,995,955,352.

## 10. Trade and bill receivables

Ageing analysis of trade and bill receivables (net of allowance for doubtful debts), based on the invoice dates, is as follows:

	<b>30 June 2009</b>	31 December 2008
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
0-90 days	<b>659,780</b>	442,728
91-180 days	<b>100,449</b>	289,269
181-365 days	<b>147,748</b>	68,585
Over 365 days	<u><b>248,280</b></u>	<u>198,826</u>
	<u><b>1,156,257</b></u>	<u>999,408</u>

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

As at 30 June 2009, included in trade receivables was a balance of RMB82,442,000 (HK\$93,500,000 equivalent) (31 December 2008: RMB72,000,000 (HK\$81,763,000 equivalent)) pledged for a bank loan amounting to RMB65,950,000 (HK\$74,796,000 equivalent) (31 December 2008: RMB70,000,000 (HK\$79,492,000 equivalent)) granted to the Group.

## 11. Trade and bill payables

The Group was granted by its suppliers credit periods ranging between 30 and 180 days during the period. Based on the invoice dates, ageing analysis of trade and bill payables as of the balance sheet dates is as follows:

	<b>30 June 2009</b> <b>(Unaudited)</b> <i>HK\$'000</i>	31 December 2008 <b>(Audited)</b> <i>HK\$'000</i>
0-90 days	<b>651,761</b>	278,580
91-180 days	<b>16,093</b>	76,586
181-365 days	<b>67,678</b>	12,041
Over 365 days	<b>8,973</b>	13,588
	<u><b>744,505</b></u>	<u>380,795</u>

## 12. Share capital

	<b>Number of shares</b>		<b>Amount</b>	
	<b>30 June</b> <b>2009</b> <b>(Unaudited)</b> <i>'000</i>	31 December 2008 <b>(Audited)</b> <i>'000</i>	<b>30 June</b> <b>2009</b> <b>(Unaudited)</b> <i>HK\$'000</i>	31 December 2008 <b>(Audited)</b> <i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	<u><b>5,000,000</b></u>	<u>5,000,000</u>	<u><b>500,000</b></u>	<u>500,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.10 each				
At 1 January	<b>4,564,555</b>	2,422,388	<b>456,456</b>	242,239
Issue of shares upon conversion of convertible notes	-	17,167	-	1,717
Placing of shares	-	860,000	-	86,000
Issue of consideration shares upon the completion of the Agreement	-	1,260,000	-	126,000
Issue of shares upon conversion of share options	<b>17,400</b>	5,000	<b>1,740</b>	500
At 30 June/31 December	<u><b>4,581,955</b></u>	<u>4,564,555</u>	<u><b>458,196</b></u>	<u>456,456</u>

As at the date of the Unaudited Interim Financial Report, the number of the issued share capital of the Company is increased to 4,995,955,352. Details of the increase in the number of issued share capital by 414,000,000 new shares subsequent to the balance sheet date are set out in Note 15(a) and Note 15(d) to the Unaudited Interim Financial Report.

### 13. Capital commitments

Capital commitments of the Group at 30 June 2009 are as follows:

	<b>30 June 2009</b> <b>(Unaudited)</b> <b>HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Contracted but not provided for :		
- Acquisition of property, plant and equipment	<b>400,255</b>	445,302
- Exploration and design fees for a potential mining project	<b>8,483</b>	8,494
	<b><u>408,738</u></b>	<u>453,796</u>

### 14. Financial guarantee contracts

As at 30 June 2009, Xingwu and Zhaiyadi executed guarantees with respect to the bank loans, denominated in RMB382,000,000 (31 December 2008: RMB872,000,000) and RMB100,000,000 (31 December 2008: RMB100,000,000) respectively, granted to three independent third parties, under which Xingwu and Zhaiyadi are liable to pay the banks if the banks 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 no probable that the repayment of the loans will be in default.

### 15. Post balance sheet events

- (a) On 21 July 2009, Mr. Wong and China Merit Limited (the "Vendors"), the Company, and Deutsche Bank AG, Hong Kong Branch and Credit Suisse (Hong Kong) Limited (the "Placing Agents") entered into a placing and subscription agreement (the "Placing and Subscription Agreement") pursuant to which Placing Agents had agreed to act as agents of the Vendors and on a fully underwritten basis to procure purchasers to acquire, and the Vendors had agreed to sell, 600,000,000 shares at the placing price of HK\$4.38 per share (the "Placing"). Pursuant to the Placing and Subscription Agreement, the Vendors had conditionally agreed to subscribe for 400,000,000 new shares at the subscription price of HK\$4.38 per share (the "Subscription"). Details of the Placing and the Subscription are set out in the announcement of the Company dated 21 July 2009. The Subscription was completed on 28 July 2009 and 400,000,000 shares had been issued under the general mandate approved at the last annual general meeting of the Company held on 2 June 2009. The Company raised a net proceed of approximately HK\$1,718 million from the Subscription which will be applied mainly for future acquisitions in the PRC and overseas, and capital expenditures of the Group. As at the date of the Unaudited Interim Financial Report, the net proceed was deposited at bank.

**15. Post balance sheet events (Continued)**

- (b) On 19 August 2009, 281,050,000 share options to subscribe for shares of the Company were granted by the Company under its share option scheme adopted by the Company on 20 June 2003 (the “Share Options Scheme”) at an exercise price of HK\$6.0 per share. Details of the grant of share options under the Share Option Scheme are set out in the announcement of the Company dated 19 August 2009. The estimated fair value of the options granted, measured at the date of grant on 19 August 2009 by using the Black-Scholes option pricing model based on number of assumptions, totalled approximately HK\$596,000,000 (subject to audit). As the options vest after two years from the date of grant on 19 August 2009, the amount of HK\$596,000,000 will be as a share-based compensation expense in the consolidated statement of comprehensive income over 2 years from 19 August 2009 to 18 August 2011 with a corresponding credit in share-based compensation reserve. Thus, approximately HK\$110,000,000, HK\$298,000,000 and HK\$188,000,000 will be recognised in the consolidated statement of comprehensive income for the year ending 31 December, 2009, 2010 and 2011 respectively. The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair estimate, in the directors’ opinion, this model does not necessarily provide a reliable single measure of the fair value of the share options.
- (c) The Company entered into an up to US\$200,000,000 (the “Loan”) secured credit agreement between, amongst others, the Company as the borrower and Bank of China (Hong Kong) Limited as the facility agent and the security agent on 11 September 2009. The term of the Loan is 3 to 4 years. The Loan is for the purpose of partly refinancing the RMB equivalent of US\$153,800,000 credit agreement between, amongst others, Jade Green and BOCI Leveraged & Structured Finance Limited and of financing the project funding requirement of the Company and its subsidiaries in the future. The interest rate on the Loan is LIBOR plus 1.85%.
- (d) Subsequent to the balance sheet date and up to the date of the Unaudited Interim Financial Report, 14,000,000 new shares were issued at exercise price of HK\$1.5 per share upon the exercise of granted share options by option holders as a result of further raised a net proceed of approximately HK\$21 million.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In the first half of 2009, although the global economic environment was still affected by uncertainties, Fushan Energy managed to further expand its core coking coal business, improve its industry chain and strengthen its sales network, thanks to the PRC government's macro-economic policies expansion of domestic demand and the Group's effective growth strategy.

In the second quarter of 2009, a new coal preparation plant, which is in the proximity of the Jinjiazhuang Coal Mine and has an annual processing capacity of 3 million tonnes, was formally put into commercial operation. To further expand the coal preparation capacity, the Group is constructing two new coal preparation plants which are adjacent to our other mines. Such coal preparation plants are planned to complete construction and put into production by the end of 2009 and the second quarter of 2010 respectively. By 2010, the Group's annual processing capacity is expected to reach 11 million tonnes. In the first half of 2009, the Group achieved outstanding operating results by scientifically organising production and operation, strictly controlling costs and expenses, and proactively addressing impacts of domestic and overseas macro-economic disadvantages and market changes. During the first half of 2009, the Group produced approximately 3.25 million tonnes of raw coal and approximately 0.45 million tonnes of clean coal respectively.

### Financial Review

For the six months ended 30 June 2009, the Group recorded a turnover of approximately HK\$2,080.8 million, representing a significant increase of approximately 468 times over approximately HK\$4.4 million in the same period of 2008. The substantial growth in turnover was attributable to the significant contribution of income to the Group from the three high quality coking coal mines acquired in July 2008 (the "2008 Acquisition"). In addition, the Group recorded a turnaround in its profitability and a substantial net profit of approximately HK\$920.1 million for the six months ended 30 June 2009 when compared with the net loss of approximately HK\$30.8 million for the six months ended 30 June 2008. For the six months ended 30 June 2009, the Group recorded net profit attributable to the equity holders of the Company of approximately HK\$768.5 million and earnings of HK16.82 cents per share.

Furthermore, the Group recorded an increase in turnover of approximately HK\$184.2 million for the six months ended 30 June 2009 when compared with the turnover of approximately HK\$1,896.6 million for the year ended 31 December 2008 which incorporated the financial results of the three high quality coking coal mines since 25 July 2008. Net profit increased by approximately HK\$213.5 million for the six months ended 30 June 2009 when compared with that of approximately HK\$706.6 million for the year ended 31 December 2008. This demonstrated that the Group's profitability has been further enhanced. Average realized selling price of raw coking coal and clean coking coal (inclusive of VAT) were RMB600 and RMB1,311 respectively during the six months ended 30 June 2009.

### Cost of Sales

During the period under review, cost of sales was approximately HK\$576.1 million, representing an increase of approximately HK\$571.8 million or approximately 135 times, as compared with approximately HK\$4.3 million of the same period in 2008. The significant increase was due to the increase in turnover.

Depreciation of property, plant and equipment for the six months ended 30 June 2009 was approximately HK\$75 million, representing an increase of approximately HK\$73.6 million or approximately 54 times as compared with approximately HK\$1.4 million of the same period in 2008. The increase was mainly attributable to the significant additions of property, plant and equipment through the 2008 Acquisition amounting to approximately HK\$1,323 million. During the period under review, additions of property, plant and equipment amounted to approximately HK\$231 million.

Amortisation of mining rights for the six months ended 30 June 2009 was approximately HK\$135 million, which was solely attributable to the addition of carrying amount of mining rights of approximately HK\$10,690 million from the 2008 Acquisition.

### **Gross Profit and Gross Profit Margin**

As a result of the reasons above, gross profit for the six months ended 30 June 2009 was approximately HK\$1,504.7 million, representing a significant increase of approximately HK\$1,504.6 million or approximately 9,404 times as compared with approximately gross profit of HK\$0.2 million of the same period in 2008. During the period under review, gross profit margin achieved at 72% compared with 4% of the same period in 2008.

In addition, gross profit increased by HK\$267.8 million when compared with approximately HK\$1,236.9 million for the year ended 31 December 2008 and the gross profit margin is 7% higher when compared with 65% for the year ended 31 December 2008. The increase in gross profit, even though the average realized selling prices in the first half of 2009 were lower than that in 2008, was due to (i) the result of the effective cost control, (ii) reducing average unit cost as a result of the expansion of production volume of raw coal from approximately 2.56 million tonnes in 2008 to 3.25 million tonnes in the first half of 2009, (iii) increasing in sales mix by clean coal with high gross margin; and (iv) changes of accounting treatment on development fund for mine transition and environmental recovery guarantee fund, amounting to approximately HK\$55 million during the period under review, not taken into accounts as expenses since 1 January 2009.

### **Other Operating Income**

During the period under review, other operating income was approximately HK\$18.2 million, representing an increase of approximately HK\$16.4 million or approximately 10 times as compared with approximately HK\$1.8 million of the same period in 2008. The increase was mainly attributable to the gain on 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\$96.1 million which was increased with the turnover and mainly attributable to the three quality coking coal mines.

### **General and Administrative Expenses**

During the period under review, administrative expenses were approximately HK\$110.8 million, representing an increase of approximately HK\$86.2 million or approximately 5 times as compared with approximately HK\$24.6 million of the same period in 2008. The increase was again mainly attributable to the three quality coking coal mines.

### **Other Operating Expenses**

During the period under review, other operating expenses were approximately HK\$111.1 million, representing an increase of approximately HK\$107.5 million or approximately 31 times as compared with approximately HK\$3.6 million of the same period in 2008. The increase was again mainly attributable to the three quality coking coal mines.

### **Finance Costs**

During the period under review, finance costs were approximately HK\$98.5 million, representing an increase of approximately HK\$93.8 million or approximately 21 times as compared with approximately HK\$4.7 million of the same period in 2008. The increase in finance costs was due to the increase in the borrowings from approximately HK\$67.8 million at 30 June 2008 to approximately HK\$1,063.8 million at 30 June 2009 of which approximately HK\$560 million was solely for used to finance part of the consideration for the 2008 Acquisition.

### **Income Tax Expense**

During the period under review, income tax expense was approximately HK\$215.8 million, of which approximately HK\$68 million representing the provision of withholding tax on the dividend declared from the three quality coking coal mines in accordance with the tax regulations in the PRC.

### **The Company's Shareholder's Attributable Profit**

By reason of the foregoing, the net profits attributable to the equity holders of the Company (the "Shareholders") in the period under review was approximately HK\$768.5 million or approximately HK16.82 cents per share.

Furthermore, the net profit attributable to the Shareholders also increased by approximately HK\$200.9 million from approximately HK\$567.6 million for the year ended 31 December 2008 to approximately HK\$768.5 million for the six months ended 30 June 2009.

### **Increase in shareholding by Substantial Shareholders**

On 9 February 2009, Mr. Wong Lik Ping, the shareholder and executive director of Fushan Energy, and China Merit Limited, the wholly-owned subsidiary of Mr. Wong, entered into the Share Sale Agreement with Shougang Concord International Enterprises Company Limited ("Shougang") and its wholly-owned subsidiary, Excel Bond Investments Limited, pursuant to which 12.05% of the Company's share capital at the completion date of the Share Sale Agreement was sold to Shougang. Shougang together with Shougang Holding (Hong Kong) Limited indirectly increased in its equity interest in Fushan Energy from 9.86% to 21.82% as at 30 June 2009.

### **Material Investments and Acquisitions**

During the six months ended 30 June 2009, the Group had no material investments and acquisitions.

### **Material Disposals**

As the coke plant held by Taiyuan Xishan Risheng Coal and Coking Co., Limited ("Risheng") located in Gujiao, Shanxi Province is relatively distant from the three coking coal mines acquired in the 2008 Acquisition, the Group entered into a conditional sales and purchase agreement with a shareholder of the then minority shareholder of Risheng to sell, inter alia, its 70% equity interest at a consideration of approximately RMB110 million. Details of the transaction were set out in the announcement and the circular of the Company dated 23 April 2009 and 29 December 2008 respectively. The disposal was completed on 15 January 2009 and since then, Risheng ceased to be a subsidiary of the Company. A gain of approximately HK\$29.5 million was recognised on disposal during the period under review.

### **Sales Agreements**

Pursuant to the long-term strategic cooperation agreement entered into by Fushan Energy and Shougang Corporation in July 2008, Shougang Corporation will purchase not less than two million tonnes of premier clean coking coal for each calendar year from the Group from 2009 onwards, and such purchase will be expected to increase according to the actual production capacity of the Group for each calendar year thereafter.

### **Safety Production and Environmental Protection**

The Group has always been attaching great importance to production safety and environmental protection while achieving rapid growth in coal production. Thus, the Group made great efforts in promotion of standardized management in safety and quality and strengthened measures for environmental protection, aiming to build itself into a safety-oriented and environmentally-friendly enterprise. During the period under review, the coal mines of the Group operated smoothly and recorded no material safety incidents. Meanwhile, the Group was one of the industry leaders in environmental protection.

### **Charges on Assets**

As at 30 June 2009, save for the aggregate net carrying amount of approximately HK\$10,942 million was pledged for loans of approximately HK\$564 million, of which HK\$560 million was solely used to finance part of the payment of the consideration for the 2008 Acquisition, none of the Group's assets was charged or subject to any encumbrance.

### **Contingent Liabilities**

As at 30 June 2009, save for the guarantees given by two subsidiaries in the PRC, namely Shanxi Liulin Xingwu Coalmine Company Limited and Shanxi Liulin Zhaiyadi Coal Company Limited amounting to approximately RMB382 million (HK\$433 million equivalent) and RMB100 (HK\$113 million equivalent) million respectively which were mainly entered prior to the completion of the 2008 Acquisition, with respect to the bank loans to their independent third customers, there were no guarantees given to any banks or financial institutions by the Group. As at 30 June 2009, there was no default in the repayment of the respective loans.

### **Gearing Ratio**

As at 30 June 2009, gearing ratio of the Group, computed from the Group's interest bearing liabilities divided by the total equity, was approximately 8%. The borrowings were mainly used to finance part of the payment of the consideration for the 2008 Acquisition as mentioned above and certain construction and installation of machinery of coal preparation plants and coke plant in the PRC.

### **Exposure to Fluctuations in Exchange Rates**

As at 30 June 2009, other than assets and liabilities denominated in Renminbi, the Group had no material exposure to foreign exchange fluctuations.

### **Liquidity and Financial Resources**

As at 30 June 2009, the Group's current ratio (current assets divided by current liabilities) was approximately 1.02 and the Group's cash and bank deposits amounted to approximately HK\$943 million, of which approximately HK\$506 million was deposited mainly to secure bill facilities of approximately HK\$525 million.

After the balance sheet date, the Group's cash and bank deposits are increased by approximately HK\$1,739 million due to the placing of 400 million new shares at HK\$4.38 per share and the issue of 14 million new shares at HK\$1.50 per share upon the exercise of share options.

### **Capital Structure**

The Group considers total equity, bank loans and other borrowings as capital. As at 30 June 2009, the amount of capital was approximately HK\$14,183 million. Subsequent to the balance sheet date, the amount of capital was significantly increased resulting from increase in equity by approximately HK\$1,739 million from the placing of 400 million new shares and the issue of 14 million new shares upon the exercise of share options.

As at 30 June 2009, the issued capital of the Company was approximately HK\$458 million. The Company issued 17,400,000 shares with par value of HK\$0.1 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 HK\$1,064 million. All borrowings are subject to fixed interest rates.

### **Employees**

The Group had 13 Hong Kong employees and 6,432 PRC employees at 30 June 2009 with remuneration package which are subject 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.

## **INTERIM DIVIDEND**

The directors have declared an interim dividend of HK10 cents per share for the six months ended 30 June 2009. The proposed interim dividend for 2009 will be payable on 22 October 2009 to Shareholders whose names appear on the register of members of the Company at the close of business on 9 October 2009.

## **FUTURE PROSPECTS**

As the PRC Government launches new economic stimulus packages and industrial revitalization policies in tandem, Fushan Energy is facing unprecedented development opportunities in 2009. In addition, the increasing demands in real estate and automobile industries will drive the output volume of the downstream industries such as steel and building materials. Accordingly, the market demand for coking coal is to gradually recover, accompanying with the continuity of steadily rising price of coking coal. Keeping abreast of the favourable market situation and being market-oriented, the Group will timely adjust its strategies to be conducive to its development. Meanwhile, the Group will further expand its premier customer bases, improve its coal preparation capacity and strengthen the production safety and environmental protection, building itself into an enterprise with strong awareness of social responsibility.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

## **AUDIT COMMITTEE**

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2009 (the “Unaudited Interim Financial Report”), which has been also reviewed by Grant Thornton, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

## **SUBSEQUENT EVENTS**

Save for the post balance sheet events set out in note 15 to the Unaudited Interim Financial Report, there are no other material subsequent events.

## **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 six months ended 30 June 2009, in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (“the Listing Rules”) on The Hong Kong of Stock Exchange Limited (“The Stock Exchange”).

## **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 conduct regarding securities transactions by directors (the “Model Code”). The Company has made specific enquiries with all directors of the Company and each of them confirmed that they have complied with the Model Code during the six months ended 30 June 2009.

## **DISCLOSURE OF THE INTERIM REPORT ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY**

The interim report for 2009 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](http://www.hkex.com.hk) and on the website of the Company at [www.fushan.com.hk](http://www.fushan.com.hk) in due course.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 8 October 2009 to 9 October 2009 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the interim cash dividend, all transfer documents, accompanied by 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 4:30 pm on 7 October 2009.

By Order of the Board  
**CAO ZHONG**  
*Chairman*

Hong Kong, 22 September 2009

*As at the date of this announcement, the Board comprises Mr. Cao Zhong (Chairman), Mr. Wong Lik Ping (Vice-chairman), 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.*