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

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福山國際能源集團有限公司

FUSHAN INTERNATIONAL ENERGY GROUP LIMITED

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

(Stock Code: 639)

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



First Shanghai Capital Limited

A letter from the Board is set out on pages 6 to 16 of this circular and a letter from the Independent Board Committee is set out on page 17 to 18 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 32 of this circular.

A notice convening the EGM of the Company to be held at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 13 November 2009 at 10:30 a.m. is set out on pages 40 to 42 of this circular. Whether or not you are able to attend the meeting in person, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the accompanying form of proxy will not preclude you from attending and voting at the meeting should you so wish.

Hong Kong, 28 October 2009

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DEFINITIONS

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

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| “Accessories and Small Tools” | the accessories, small tools and equipment supplied by Party D to the PRC Subsidiaries pursuant to the Supply Contract, the First Revised Supply Contract or the Second Revised Supply Contract (as the case may be); |
| “Accessories and Small Tools Transactions” | the transactions in connection with the Accessories and Small Tools; |
| “Acquisition” | has the meaning ascribed to it in the circular of the Company dated 25 June 2008; |
| “Announcement” | the announcement of the Company dated 7 October 2009; |
| “associate” | has the meaning ascribed to it in the Listing Rules; |
| “Bank” | China Merchant Bank Company Limited, Shenzhen Branch; |
| “Board” | the board of Directors; |
| “Company” | Fushan International Energy Group Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange; |
| “connected person(s)” | has the meaning ascribed to it in the Listing Rules; |
| “Continuing Connected Transactions” | the transactions contemplated under the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A; |
| “December 2008 EGM” | the extraordinary general meeting of the Company held on 15 December 2008; |
| “Director(s)” | the directors(s) of the Company; |

DEFINITIONS

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| “EGM” | extraordinary general meeting of the Company to be convened at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 13 November 2009 for approving the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A; |
| “First Revised Supply Contract” | the revised supply contract entered into among the PRC Subsidiaries and Party D dated 3 November 2008, pursuant to which, among other things, the PRC Subsidiaries agreed to purchase raw coking coal, electricity, Accessories and Small Tools from Party D; |
| “Group” | the Company and its subsidiaries; |
| “Guarantee” | the guarantee to be provided by the Company to the Bank in respect of the Loan Facilities, details of which are set out in the section headed “Continuing Connected Transactions – (C) Provision of financial assistance from the Company to PRC Subsidiary A and PRC Subsidiary C under the Loan Facilities” of this circular; |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong; |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC; |
| “Independent Board Committee” | an independent committee of the Board comprising Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam, being the independent non-executive Directors to advise the Independent Shareholders on the Continuing Connected Transactions; |
| “Independent Financial Adviser” | First Shanghai Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Continuing Connected Transactions; |

DEFINITIONS

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| “Independent Shareholders” | Shareholders other than Mr. Xing and his associates; |
| “Intra-group Advances Master Contract” | the contract entered into among the PRC Subsidiaries dated 6 October 2009, details of which are set out in the section headed “Continuing Connected Transactions – (B) Intra-group Advances Transactions Among the PRC Subsidiaries” of this circular; |
| “Intra-group Advances Transactions” | the advances transactions made or to be made among the PRC Subsidiaries, details of which are set out in the section headed “Continuing Connected Transactions – (B) Intra-group Advances Transactions Among the PRC Subsidiaries” of this circular; |
| “July 2008 EGM” | the extraordinary general meeting of the Company held on 18 July 2008; |
| “Latest Practicable Date” | 23 October 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Loan Facilities” | (i) a loan facility of up to RMB400,000,000 made available by the Bank to the PRC Subsidiary A pursuant to a loan agreement to be entered into between the Bank and the PRC Subsidiary A; and (ii) a loan facility of up to RMB200,000,000 made available by the Bank to the PRC Subsidiary C pursuant to a loan agreement to be entered into between the Bank and the PRC Subsidiary C; |
| “Luensheng A” | Shanxi Luensheng Energy Limited (山西聯盛能源有限公司), a company established under the laws of the PRC; |
| “Luensheng B” | Shanxi Luensheng Energy Investment Limited (山西聯盛能源投資有限公司), a company established under the laws of the PRC; |
| “Mr. Xing” | Mr. Xing Libin, a substantial shareholder of the Company; |
| “Ms. Li” | Ms. Li Feng Xiao, being the spouse of Mr. Xing; |

DEFINITIONS

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| “Party D” | Mr. Xing and his associates; |
| “Percentage Ratios” | the percentage ratios as stipulated under Rule 14.07 of the Listing Rules; |
| “PRC” | the People’s Republic of China, for the purpose of this circular only, excluding Taiwan, Hong Kong and Macau Special Administrative Regions; |
| “PRC Subsidiaries” | PRC Subsidiary A, PRC Subsidiary B and PRC Subsidiary C; |
| “PRC Subsidiary A” | Shanxi Liulin Xingwu Coalmine Company Limited (山西柳林興無煤礦有限責任公司), a company established in the PRC with limited liability; |
| “PRC Subsidiary B” | Shanxi Liulin Jinjiazhuang Coal Company Limited (山西柳林金家莊煤業有限公司), a company established in the PRC with limited liability; |
| “PRC Subsidiary C” | Shanxi Liulin Zhaiyadi Coal Company Limited (山西林寨崖底煤業有限公司), a company established in the PRC with limited liability; |
| “RMB” | Renminbi, the lawful currency of PRC; |
| “Second Revised Supply Contract” | the revised supply contract entered into among the PRC Subsidiaries and Party D dated 6 October 2009, details of which are set out in the section headed “Continuing Connected Transactions – (A) Second Revised Supply Contract” of this circular; |
| “SFO” | The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); |
| “Shareholder(s)” | shareholder(s) of the Company; |
| “Share(s)” | existing ordinary shares of HK\$0.10 each in the share capital of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “substantial shareholder” | has the meaning ascribed to it in the Listing Rules; |

DEFINITIONS

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| “Supply Contract” | the supply contract entered into among the PRC Subsidiaries and Party D dated 2 June 2008, pursuant to which, among other things, the PRC Subsidiaries agreed to purchase raw coking coal, electricity, Accessories and Small Tools from Party D; |
| “VAT” | the value added tax chargeable under the applicable PRC laws; and |
| “%” | per cent. |

For the purpose of this circular, all amounts in RMB are translated into HK\$ at an exchange rate of HK\$1: RMB0.8818 for illustration only.

LETTER FROM THE BOARD



福山國際能源集團有限公司

FUSHAN INTERNATIONAL ENERGY GROUP LIMITED

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

(Stock Code: 639)

Executive Directors:

Mr. Cao Zhong (*Chairman*)
Mr. Wong Lik Ping (*Vice-chairman*)
Mr. So Kwok Hoo
Mr. Xue Kang
Mr. Liu Qingshan

Registered Office:

6th Floor, Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Non-Executive Directors:

Mr. Chen Zhouping
Mr. Leung Shun Sang, Tony
Mr. Shi Jianping

Independent non-Executive Directors:

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

28 October 2009

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 7 October 2009 in relation to the Continuing Connected Transactions. On 6 October 2009, the PRC Subsidiaries and Party D entered into the Second Revised Supply Contract in relation to the revision of the annual cap amounts for each of the two financial years ending 31 December 2010 in respect of the Accessories and Small Tools Transactions.

LETTER FROM THE BOARD

On the same day, the PRC Subsidiaries entered into the Intra-group Advances Master Contract, pursuant to which the PRC Subsidiaries agreed that each of the PRC Subsidiaries will make unsecured and interest-free advances to one another (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) for a term commencing on the effective date of the Intra-group Advances Master Contract and ending on 31 December 2010.

Furthermore, the Company will enter into agreements with the Bank as lender in respect of the loan agreements to be entered into by each of the PRC Subsidiary A and PRC Subsidiary C as borrower for granting a revolving loan facility, whereby the Company will agree to provide the Guarantee in favour of the Bank to secure the payment obligations of each of PRC Subsidiary A and PRC Subsidiary C.

As the annual amount of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A will exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules. Mr. Xing and his associates will abstain from voting at the EGM to be convened for the approval of the Continuing Connected Transactions.

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the terms of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A, and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract, and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A.

The Independent Financial Adviser, First Shanghai Capital Limited, has been appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contracts and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A.

The purpose of this circular is:

- (i) to provide the Shareholders with details of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A;

LETTER FROM THE BOARD

- (ii) to set out the opinion of the Independent Financial Adviser in respect of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A; and
- (iv) to give notice of the EGM to consider and, if thought fit, to approve the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A.

CONTINUING CONNECTED TRANSACTIONS

(A) Second Revised Supply Contract

Reference is made to the announcement of the Company dated 4 June 2008 in relation to the Accessories and Small Tool Transactions under the Supply Contract and the cap amounts for the three financial years ending 31 December 2010 which were approved by the then Independent Shareholders at the July 2008 EGM.

Reference is also made to the announcement of the Company dated 4 November 2008 in relation to the Accessories and Small Tool Transactions under the First Revised Supply Contract and the revised cap amounts for the three financial years ending 31 December 2010 which were approved by the Independent Shareholders at the December 2008 EGM.

Under the First Revised Supply Contract, Party D agreed to, among other things, supply the Accessories and Small Tools to the PRC Subsidiaries commencing from 15 December 2008 (i.e. the effective date of the First Revised Supply Contract) to 31 December 2010.

The Internal Control Review (as defined in the Announcement) and the Management Internal Review (as defined in the Announcement) revealed that the amount incurred on the transactions conducted under the First Revised Supply Contract in respect of the Accessories and Small Tool Transactions has exceeded (i) the cap amount for the financial year ended 31 December 2008 approved by the then Independent Shareholders at

LETTER FROM THE BOARD

the July 2008 EGM; and (ii) the cap amount for the financial year ending 31 December 2009 approved by the Independent Shareholders at the December 2008 EGM as follows:

For the period between 25 July 2008 (i.e. the date of PRC Subsidiary A and PRC Subsidiary B becoming the connected persons of the Company since completion of the Acquisition) to 31 December 2008

| Supplier | Purchaser | Cap amount for the period from 25 July 2008 to 31 December 2008 under the Supply Contract approved by the then Independent Shareholders at the July 2008 EGM (RMB) (net of VAT) | Amount incurred for the period from 14 December 2008 (RMB) (net of VAT) | Revised cap amount for the period from 15 December 2008 to 31 December 2008 under the First Revised Supply Contract approved by the Independent Shareholders at the December 2008 EGM (RMB) (net of VAT) | Amount incurred for the period from 15 December 2008 to 31 December 2008 (RMB) (net of VAT) |
|----------|------------------|---|---|--|---|
| Party D | PRC Subsidiaries | 1,306,848 | 41,454,621 | 7,100,000 | 6,126,011 |

For the financial year ending 31 December 2009

| Supplier | Purchaser | Cap amount for the financial year ending 31 December 2009 under the First Revised Supply Contract approved by the Independent Shareholders at the December 2008 EGM (RMB) (net of VAT) | Amount incurred for the period from 1 January 2009 to 31 August 2009 (RMB) (net of VAT) |
|----------|------------------|--|---|
| Party D | PRC Subsidiaries | 33,600,000 | 58,165,350 |

LETTER FROM THE BOARD

Revised cap amount

It is expected that the PRC Subsidiaries will purchase more Accessories and Small Tools from Party D which has sourcing companies for Accessories and Small Tools. In order to provide more flexibility for the PRC Subsidiaries in respect of the Accessories and Small Tool Transactions, the Board proposes to increase the cap amount for the financial years ending 31 December 2009 and 2010 as follows:

| Supplier | Purchaser | Cap amount for the financial year ending 31 December 2009 under the First Revised Supply Contract approved by the Independent Shareholders at the December 2008 EGM (RMB) (net of VAT) | Revised cap amount for the financial year ending 31 December 2009 under the Second Revised Supply Contract (RMB) (net of VAT) | Cap amount for the financial year ending 31 December 2010 under the First Revised Supply Contract approved by the Independent Shareholders at the December 2008 EGM (RMB) (net of VAT) | Revised cap amount for the financial year ending 31 December 2010 under the Second Revised Supply Contract (RMB) (net of VAT) |
|----------|------------------|---|--|---|--|
| Party D | PRC Subsidiaries | 33,600,000 | 118,165,350 | 37,300,000 | 120,000,000 |

The quantity and specification of the Accessories and Small Tools to be supplied by Party D to PRC Subsidiaries will be subject to individual orders placed by PRC Subsidiaries from time to time. The unit price of the Accessories and Small Tools payable by PRC Subsidiaries to Party D will be no less favourable than the unit price offered to PRC Subsidiaries by independent suppliers for the same type of Accessories and Small Tools. Such unit price benchmarks shall be determined with reference to the existing unit price of Accessories and Small Tools offered to the Group by independent suppliers, the expected year-on-year increase in the unit price of Accessories and Small Tools and the quantity of Accessories and Small Tools to be supplied under the Second Revised Supply Contract. The amount payable by PRC Subsidiaries to Party D shall be settled in cash within 30 days upon receipt of the purchase pursuant to the Second Revised Supply Contract.

Conditions of the Second Revised Supply Contract

The revised cap amounts as stated above in respect of the Accessories and Small Tool Transactions under the Second Revised Supply Contract are conditional on the Company's compliance with the relevant Listing Rules requirements (including, but not limited to, obtaining approval by the Independent Shareholders at the EGM).

LETTER FROM THE BOARD

The terms of the Second Revised Supply Contract have been agreed upon after arm's length negotiations among the relevant parties. The Directors believe that the transactions contemplated under the Second Revised Supply Contract are entered into in the ordinary and usual course of business of the Group. The Directors (including the independent non-executive Directors who had received advice from the Independence Financial Advisor) consider that the revised annual caps under the Second Revised Supply Contract are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(B) Intra-Group Advances Transactions Among the PRC Subsidiaries

On 6 October 2009, the PRC Subsidiaries entered into the Intra-group Advances Master Contract pursuant to which the PRC Subsidiaries agreed that each of the PRC Subsidiaries will make unsecured and interest-free advances to one another (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) for a term commencing on the effective date of the Intra-group Advances Master Contract and ending on 31 December 2010. During the term of the Intra-group Advances Master Contract, the aggregate daily balance for the Intra-group Advances Transactions (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) will not exceed the following amounts:

- (a) RMB610,697,642 for the period from the effective date of the Intra-group Advances Master Contract (being the date of the EGM for the approval of the Intra-group Advances Master Contract) to 31 December 2009; and
- (b) RMB400,000,000 for the period from 1 January 2010 to 31 December 2010.

The annual cap amounts for the Intra-group Advances Master Contract are determined with reference to the previous funding needs of the PRC Subsidiaries (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) and the Loan Facilities to be obtained by the PRC Subsidiaries. The highest aggregate daily balance advanced during the period from 25

LETTER FROM THE BOARD

July 2008 to 31 December 2008, the aggregate highest daily balance advanced during the period from 1 January 2009 to 31 August 2009 and the closing balance of the aggregate amounts advanced as at 31 August 2009 are set out as follows:

| | The aggregate highest daily balance of advances during the period from 25 July 2008 to 31 December 2008 (RMB) | The aggregate highest daily balance of advances during the period from 1 January 2009 to 31 August 2009 (RMB) | The closing balance as at 31 August 2009 (RMB) |
|--|---|---|---|
| Advances among the PRC Subsidiaries (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) | 372,264,655 | 709,316,741 | 610,697,642 |

The Intra-group Advances Transactions which were entered into among the PRC Subsidiaries were carried out to meet the unexpected urgent need of fund among the PRC Subsidiaries so as to ensure that each of the PRC Subsidiaries had sufficient funding for its general working capital requirement.

As one of the applicable Percentage Ratios for the annual cap amounts of the Intra-group Advances Transactions (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) under the Intra-group Advances Master Contract exceeds 2.5%, the Intra-group Advances Transactions among the PRC Subsidiaries (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Intra-group Advances Master Contract will be conditional upon the Company's compliance with the relevant Listing Rules requirements (including, but not limited to, obtaining approval by the Independent Shareholders at the EGM).

The terms of the Intra-group Advances Master Contract have been agreed upon after arm's length negotiations among the relevant parties. The reason for entering into the Intra-group Advances Master Contract is to ensure that each of the PRC Subsidiaries will continue to have sufficient funding for its general working capital requirement in the event that any of the PRC Subsidiaries is in urgent need of funding for its daily operation thereby enhancing the flexibility and liquidity of the operations of the PRC Subsidiaries. Hence, the Directors (including the independent non-executive Directors who had received advice from the Independence Financial Advisor) consider that the Intra-group Advances Transactions under the Intra-group Advances Master Contract and the relevant

LETTER FROM THE BOARD

cap amounts in respect of the Intra-group Advances Master Contract are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C fell within Rule 14A.65(4) of the Listing Rules, such transactions were exempted from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

(C) Provision of Financial Assistance from the Company to PRC Subsidiary A and PRC Subsidiary C under the Loan Facilities

A loan agreement will be entered into by each of the PRC Subsidiary A and PRC Subsidiary C as borrower and the Bank as lender whereby the Bank will agree to grant a revolving loan facility of up to RMB400,000,000 and RMB200,000,000 to PRC Subsidiary A and PRC Subsidiary C, respectively for a period from the effective date of the loan agreement up to 2 years. On the even date of the loan agreements, the Company will enter into agreements with the Bank in respect of the loan agreements entered into by PRC Subsidiary A and PRC Subsidiary C, whereby the Company will agree to provide the Guarantee in favour of the Bank to secure the payment obligations of each of PRC Subsidiary A and PRC Subsidiary C. The Company will not receive any fee arising from the provision of the Guarantee. The aggregate maximum liability of the Company in respect of the Guarantee to the PRC Subsidiary A and the PRC Subsidiary C shall be limited to RMB400,000,000 and RMB200,000,000 respectively, any interest accrued thereon, any payment to be paid by PRC Subsidiary A and PRC Subsidiary C upon default of their repayment obligations, any costs and expenses for enforcing the Guarantee and any loss and other relevant expenses incurred by the Bank upon default of the payment obligations by PRC Subsidiary A and PRC Subsidiary C. In consideration of the Company entering into the Guarantee as the guarantor, (i) PRC Subsidiary B has agreed to provide a counter-guarantee in favour of the Company for the amount guaranteed by the Company up to PRC Subsidiary B's proportionate interest in PRC Subsidiary A; and (ii) Luensheng A has agreed to provide a counter-guarantee in favour of the Company for the amount guaranteed by the Company up to Luensheng A's proportionate interest in PRC Subsidiary C. Each of the PRC Subsidiary B and Luensheng A will not receive any fee arising from their respective provision of counter-guarantee.

Mr. Xing was a substantial shareholder of the Company who together with his associates, held approximately 10.35% of the Shares in issue as at the Latest Practicable Date, and hence a connected person of the Company for the purpose of the Listing Rules. PRC Subsidiary B is owned as to 35% by Luensheng B, a company controlled by Ms. Li, an associate of Mr. Xing. Hence PRC Subsidiary B is a connected person of the Company for the purpose of the Listing Rules. PRC Subsidiary A is owned as to 35% by PRC Subsidiary B and is therefore an associate of PRC Subsidiary B. Hence PRC Subsidiary A is also a connected person of the Company for the purpose of the Listing Rules. PRC Subsidiary C is owned as to 5% by Luensheng A, a company controlled by Ms. Li who is an associate of Mr. Xing. Accordingly, the provision of financial assistance by the Company in favour of PRC Subsidiary A under the Guarantee will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

The provision of the Guarantee by the Company in favour of PRC Subsidiary A will be conditional upon the Company's compliance with the relevant Listing Rules requirements (including, but not limited to, obtaining approval by the Independent Shareholders at the EGM).

The provision of the Guarantee is one of the conditions to the grant of the Loan Facilities to the PRC Subsidiaries. The Board considers that the Guarantee would enable PRC Subsidiary A and PRC Subsidiary C to obtain financing in the PRC for the purpose of partial repayment of advances under the Intra-group Advances Transactions due among the PRC Subsidiaries mutually and financing the PRC Subsidiary A's and PRC Subsidiary C's general working capital requirements with a view to reducing the Intra-group Advances Transactions. The Directors (including the independent non-executive Directors who had received advice from the Independence Financial Advisor) believe that the terms and conditions of the Guarantee (including the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A) are made on an arm's length basis and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one of the Percentage Ratios in respect of each of the relevant cap amounts of each of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A exceed the 2.5% threshold provided in Rule 14A.34 of the Listing Rules, the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A will constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules.

Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam have been appointed by the Board to form an Independent Board Committee advising the Independent Shareholders on transactions under the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A. First Shanghai Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A in accordance with the Listing Rules.

LETTER FROM THE BOARD

GENERAL

The Company is an investment holding company and the Group is principally engaged in coking coal mining, production and sales of coking coal products (including raw coking coal, clean coking coal and coke) and side products. The PRC Subsidiaries are non-wholly owned subsidiaries of the Company which are principally engaged in coking coal mining, production and sales of coking coal products (including raw coking coal and clean coking coal).

The Bank is a joint stock company incorporated in the PRC, the shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange. The Bank is principally engaged in the provision of banking and other related financial services.

EGM

A notice of the EGM is set out on pages 40 to 42 of this circular. In accordance with the requirements of the Listing Rules, all votes to be taken at the EGM will be by poll. Pursuant to the requirements of Rule 13.39(4) of the Listing Rules, Mr. Xing and his associates, who in aggregate hold 517,344,536 Shares, representing 10.35% interest in the Company as at the Latest Practicable Date, will abstain from voting for the resolutions to be proposed at the EGM to approve the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A.

A form of proxy for the EGM is enclosed herewith. Whether or not you are able to attend and vote at the EGM in person, you are requested to complete the form of proxy and return it to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event no later than 48 hours before the time appointed for holding the EGM. Completion of the form of proxy will not preclude you from attending and voting at the EGM in person should you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 17 to 18 of this circular which contains its recommendation to the Independent Shareholders on transactions under the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A. Your attention is also drawn to the letter of advice from the Independent Financial Adviser as set out on pages 19 to 32 of this circular which contains, amongst other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A. Based on the advice from the Independent Financial Adviser and the Independent Board Committee, the Directors recommend the Independent Shareholders to approve the terms of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A

LETTER FROM THE BOARD

including the annual cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A.

Yours faithfully
By Order of the Board
Cao Zhong
Chairman



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)

28 October 2009

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company to the Shareholders dated 28 October 2009 (the “Circular”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms and conditions of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser as set out on pages 19 to 32 of the Circular and the letter from the Board as set out on pages 6 to 16 of the Circular.

Having considered, among other things, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the terms and conditions of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A, are entered into on an arm’s length basis and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the Second Revised Supply Contract, the Intra-group Advances Master Contract and the Guarantee to PRC Subsidiary A and the relevant cap amounts in respect of each of the Second Revised Supply Contract

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

and the Intra-group Advances Master Contract and the maximum amount to be guaranteed by the Company under the Guarantee to PRC Subsidiary A to be proposed at the EGM.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Fushan International Energy Group Limited

Kee Wah Sze
Independent Non-executive director

Choi Wai Yin
Independent Non-executive director

Chan Pat Lam
Independent Non-executive director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter received from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions which has been prepared for the purpose of inclusion in this circular.



First Shanghai Capital Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

28 October 2009

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions including (i) the terms of the Second Revised Supply Contract including the revised cap amounts (the "Revised Cap Amounts") for the Accessories and Small Tools Transactions under the Second Revised Supply Contract; (ii) the Intra-group Advances Transactions under the Intra-group Advances Master Contract; and (iii) the provision of the Guarantee by the Company in favour of the Bank to secure the payment obligation of PRC Subsidiary A (the "PRC Subsidiary A Guarantee"), details of which are set out in the circular of the Company to the Shareholders dated 28 October 2009 (the "Circular"), of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, Mr. Xing is a substantial Shareholder. As a result, Mr. Xing and his associates are connected persons of the Company (as defined in the Listing Rules) and the transactions to be conducted under the Second Revised Supply Contract will constitute continuing connected transactions of the Company under the Listing Rules. The Company had at the December 2008 EGM obtained approval from its then independent Shareholders of the First Revised Supply Contract and the relevant cap amounts for the period from 15 December 2008 to 31 December 2008 and the two years ending 31 December 2010. However, the transaction amount of the Accessories and Small Tools Transactions for the period from 1 January 2009 to 31 August 2009 has exceeded the relevant cap amount for the year ending 31 December 2009 approved by the then independent Shareholders at the December 2008 EGM and the Company anticipates that the PRC Subsidiaries will purchase more Accessories and Small Tools from Mr. Xing and his associates. In this connection, the Company will seek the Independent Shareholders' approval of the Second Revised Supply Contract including the Revised Cap Amounts for the two years ending 31 December 2010 under the Second Revised Supply Contract at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRC Subsidiary B is owned as to 35% by Luensheng B, a company controlled by Ms. Li (an associate of Mr. Xing), and PRC Subsidiary A is owned as to 35% by PRC Subsidiary B. As a result, PRC Subsidiary A and PRC Subsidiary B are connected persons of the Company (as defined in the Listing Rules). The Intra-group Advances Transactions (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) to be conducted under the Intra-group Advances Master Contract, and the provision of the PRC Subsidiary A Guarantee by the Company to PRC Subsidiary A will constitute continuing connected transactions of the Company under the Listing Rules and require the approval of the Independent Shareholders at the EGM.

The Independent Board Committee, comprising the independent non-executive Directors, namely Messrs Kee Wah Sze, Choi Wai Yin and Chan Pat Lam, has been established to advise the Independent Shareholders on the Revised Cap Amounts, the Intra-group Advances Transactions and the PRC Subsidiary A Guarantee. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the above.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the management of the Group were true at the time they were made and continued to be true up to the time of the holding of the EGM. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the management of the Group nor have we conducted any form of investigation into the business, affairs or future prospects of the Group, Mr. Xing and his associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have considered the following principal factors and reasons:

I. THE ACCESSORIES AND SMALL TOOLS TRANSACTIONS

1. *Background to and reasons for the entering into of the Second Revised Supply Contract*

The Company completed the Acquisition of 87.75%, 65% and 95% effective interests in PRC Subsidiary A, PRC Subsidiary B and PRC Subsidiary C respectively on 25 July 2008. Details of the Acquisition are set out in the announcement of the Company dated 21 May 2008 and the circular of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company dated 25 June 2008. Other than the interests in the PRC Subsidiaries, Mr. Xing's associates also own a number of sourcing companies ("Mr. Xing's Companies") within the Liulin Area of Shanxi Province to source Accessories and Small Tools. Since Mr. Xing and his associates were then commonly interested in the PRC Subsidiaries and Mr. Xing's Companies which located within the Liulin Area of Shanxi Province, the PRC Subsidiaries had purchased Accessories and Small Tools in centralized order from Mr. Xing's Companies prior to the completion of the Acquisition, and after the completion of the Acquisition under the Supply Contract and the First Revised Supply Contract.

The First Revised Supply Contract and the relevant cap amounts for the three years ending 31 December 2010 had been approved by the then independent Shareholders at the December 2008 EGM. However, when setting the cap amounts for the Accessories and Small Tools Transactions under the First Revised Supply Contract for the three years ending 31 December 2010, two of the suppliers of the PRC Subsidiaries for the provision of Accessories and Small Tools which are operated and owned by associates of Mr. Xing had not been taken into consideration. As a result, the transaction amount for the purchase of Accessories and Small Tools under the First Revised Supply Contract for the period from 1 January 2009 to 31 August 2009 has exceeded the cap amount for Accessories and Small Tools Transactions for the year ending 31 December 2009 approved by the then independent Shareholders at the December 2008 EGM. Taken into account (i) the expected purchase from the two suppliers owned by associates of Mr. Xing; (ii) the Company anticipates that the PRC Subsidiaries will purchase more Accessories and Small Tools from Mr. Xing's Companies; and (iii) the benefits of providing more flexibility for the PRC Subsidiaries to purchase Accessories and Small Tools, therefore, the Company will seek the Independent Shareholders' approval of the Revised Cap Amounts for the two years ending 31 December 2010 at the EGM.

Having considered that (i) the PRC Subsidiaries had purchased Accessories and Small Tools in centralized order from Mr. Xing's Companies prior to and after the completion of the Acquisition; (ii) Mr. Xing's Companies have been the sourcing companies for Accessories and Small Tools which is more cost effective; and (iii) the entering into of the Second Revised Supply Contract would allow more flexibility for the PRC Subsidiaries in purchasing Accessories and Small Tools, we are of the view that the entering into of the Second Revised Supply Contract is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. *Revised Cap Amounts*

The following is a summary of (i) the transaction amounts for the Accessories and Small Tools Transactions for the period from 25 July 2008, completion of the Acquisition, to 31 December 2008 and the eight months ended 31 August 2009, (ii) the cap amounts approved by the then independent Shareholders at the December 2008 EGM for each of the two years ending 31 December 2010, and (iii) the Revised Cap Amounts:

| | Transaction amount for the period from 25 July 2008 to 31 December 2008 | Transaction amount for the eight months ended 31 August 2009 | Cap amounts approved at the December 2008 EGM for the year ending 31 December | | Revised Cap Amounts for the year ending 31 December | |
|--|---|--|--|---------------------------------|---|---------------------------------|
| | RMB'000 (net of VAT) | RMB'000 (net of VAT) | 2009 RMB'000 (net of VAT) | 2010 RMB'000 (net of VAT) | 2009 RMB'000 (net of VAT) | 2010 RMB'000 (net of VAT) |
| Purchase of Accessories and Small Tools under the Second Revised Supply Contract | 47,581 | 58,165 | 33,600 | 37,300 | 118,165 | 120,000 |

When setting the cap amounts for the purchase of Accessories and Small Tools under the First Revised Supply Contract, the management of the Group then expected that the PRC Subsidiaries would purchase 25% of their total purchase amount of Accessories and Small Tools from Mr. Xing's Companies. However, two of the suppliers of the PRC Subsidiaries for the provision of Accessories and Small Tools who are operated and owned by associates of Mr. Xing had not been taken into consideration in arriving at the cap amounts under the First Revised Supply Contracts and, therefore, the cap amount approved at the December 2008 EGM for the year ending 31 December 2009 has been exceeded. In order to provide more flexibility for the PRC Subsidiaries to purchase Accessories and Small Tools, the Company entered into the Second Revised Supply Contract to increase the cap amounts for the purchase of Accessories and Small Tools for the two years ending 31 December 2010.

In analyzing the Revised Cap Amounts for the purchase of Accessories and Small Tools under the Second Revised Supply Contract, we have discussed with the management of the Group the relevant bases and understand that they were determined after considering:

- (a) the historical purchase amount of Accessories and Small Tools of the PRC Subsidiaries from Mr. Xing's Companies for the eight months ended 31 August 2009;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) the expected total purchase amount of Accessories and Small Tools of the PRC Subsidiaries for the four months ending 31 December 2009 and the year ending 31 December 2010;
- (c) the expected additional Accessories and Small Tools to be required by PRC Subsidiary B and PRC Subsidiary C after their coal preparation plants has commenced/is expected to commence operations in the mid and by the end of 2009 respectively; and
- (d) the expected portion of the total purchase amount of Accessories and Small Tools of the PRC Subsidiaries from Mr. Xing's Companies.

In evaluating the Revised Cap Amounts for the purchase of Accessories and Small Tools under the Second Revised Supply Contract for the two years ending 31 December 2010, we have reviewed the historical purchase amount of Accessories and Small Tools of the PRC Subsidiaries from Mr. Xing's Companies for the eight months ended 31 August 2009 and its percentage to the total purchase of Accessories and Small Tools of the PRC Subsidiaries. We noted that the percentage of the PRC Subsidiaries' purchase of Accessories and Small Tools from Mr. Xing's Companies for the eight months ended 31 August 2009 was more than the originally expected 25% of their total purchase amount. We understand from the management of the Group that in order to secure stable and timely supply of Accessories and Small Tools for the PRC Subsidiaries, it is expected more portion of the total purchase of Accessories and Small Tools of the PRC Subsidiaries will be purchased from Mr. Xing's Companies for the four months ending 31 December 2009. Nevertheless, in order to reduce reliance on the supply from Mr. Xing's Companies, the management of the Group advised us that the expected purchase of Accessories and Small Tools from Mr. Xing's Companies for the year ending 31 December 2010 would remain stable.

Based on the bases and assumptions on which the Revised Cap Amounts were determined as described above, we are of the view that the Revised Cap Amounts are fair and reasonable. The Accessories and Small Tools Transactions under the Second Revised Supply Contract are subject to annual review by the independent non-executive Directors and the Company's auditors, detailed requirements are set out in the paragraph headed "Reporting requirements and conditions of the Continuing Connected Transactions" below. Such annual review shall safeguard the interests of the Independent Shareholders and the Shareholders.

II. INTRA-GROUP ADVANCES TRANSACTIONS

1. *Background to and reasons for the Intra-group Advances Transactions*

We are advised that the Intra-group Advances Transactions have been made among the PRC Subsidiaries not on a pro rata basis among their shareholders prior to the completion of the Acquisition to ensure that each of the PRC Subsidiaries had sufficient funding for its working capital requirement when any of the PRC Subsidiaries had urgent need of funding for their daily operations. We are also advised that part of the Loan Facilities to be obtained by PRC Subsidiary A and PRC Subsidiary C would be used gradually to repay the advances under the Intra-group Advances Transactions, however, the continuous provision of the Intra-group Advances Transactions is essential to ensure that each of the PRC Subsidiaries will continue to have sufficient funding required for its working capital requirement. Accordingly, after arm's length negotiation among the parties, the PRC Subsidiaries entered into the Intra-group Advances Master Contract to continue the provision of unsecured and interest-free advances to one another (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C).

The Intra-group Advances Transactions are unsecured and interest-free, the provision of the Intra-group Advances Transactions will lower the financing costs of the PRC Subsidiaries and provide them with more flexibility in managing their working capital resources which in turn is beneficial to the Group. The management of the Group also advised us that they would exercise due and careful consideration when choosing the best method of financing the working capital requirement of the PRC Subsidiaries. In addition, as the PRC Subsidiaries are non-wholly owned subsidiaries of the Group, the use of the Intra-group Advances Transactions is under the management control of the Group.

Having considered that (i) the Intra-group Advances Transactions have been made not on a pro rata basis among the PRC Subsidiaries' shareholders prior to the completion of the Acquisition; (ii) the entering into of the Intra-group Advances Master Contract to continue the provision of the Intra-group Advances Transactions is essential to ensure that the PRC Subsidiaries will continue to have sufficient funding for their working capital requirement which are expected to be gradually repaid by part of the Loan Facilities; (iii) the PRC Subsidiaries are substantially owned by the Group and are the principally operating subsidiaries of and profit contributors to the Group; and (iv) the terms of the Intra-group Advances Master Contract will lower the finance costs of the PRC Subsidiaries which is beneficial to the Group, we consider that although the Intra-group Advances Transactions are not in the ordinary and usual course of business of the Group, the entering into of the Intra-group Advances Master Contract is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. *Principal terms of the Intra-group Advances Master Contract*

Pursuant to the Intra-group Advances Master Contract, the PRC Subsidiaries agreed that each of the PRC Subsidiaries will make unsecured and interest-free advances to one another (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) for the period commencing on the effective date of the Intra-group Advances Master Contract to 31 December 2010.

As advised by the management of the Group, other wholly owned subsidiaries of the Group have also made unsecured and interest-free advances among themselves so as to enhance the flexibility of financing the funding requirements of the Group companies. In addition, we noted from the website of The People's Bank of China that the prevailing deposit rate of RMB is much lower than the prevailing borrowing rate of RMB. Accordingly, should the PRC Subsidiaries finance their funding requirements by way of external bank borrowings instead of the Intra-group Advances Transactions, it will increase the finance costs of the PRC Subsidiaries which in turn is not beneficial to the Group and the Shareholders as a whole. Given PRC Subsidiary A and PRC Subsidiary B are owned effectively as to 87.75% and 65% by the Company, and the majority of the board members of PRC Subsidiary A and PRC Subsidiary B are appointed by the Company, the Company is therefore able to exercise effective control on the operations of the PRC Subsidiaries, whereas the use and the amount of advances made under the Intra-group Advances Transactions are monitored and safeguarded by the Company.

Despite the Intra-group Advances Transactions which are unsecured and interest free are not on normal commercial terms, having considered that (i) the terms of the Intra-group Advances Master Contract were arrived at after arm's length negotiation among the parties; (ii) the continuous provision of the Intra-group Advances Transactions is essential to the operations of the PRC Subsidiaries and can lower the finance costs of the PRC Subsidiaries which is beneficial to the Group; (iii) the Intra-group Advances Transactions under the Intra-group Advances Master Contract allow the PRC Subsidiaries to obtain advances among themselves on reciprocal basis; (iv) other wholly owned subsidiaries of the Group have also made unsecured and interest-free advances among themselves; and (v) the Company is able to exercise effective control on the operations of the PRC Subsidiary A and PRC Subsidiary B, and monitor and safeguard the use and the amount of advances made under the Intra-group Advances Transactions, we are of the view that the terms of the Intra-group Advances Master Contract are fair and reasonable so far as the Independent Shareholders are concerned.

3. *Annual cap amounts under the Intra-group Advances Master Contract*

The following is a summary of (i) the aggregate highest daily balance advanced (excluding the provision of advances by (a) PRC Subsidiary A to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRC Subsidiary C; and (b) PRC Subsidiary B to PRC Subsidiary C) for the period from 25 July 2008, completion of the Acquisition, to 31 December 2008 and the eight months ended 31 August 2009, (ii) the aggregate closing balance as at 31 August 2009, as well as (iii) the proposed cap amounts under the Intra-group Advances Master Contract (excluding the provision of advances by (a) PRC Subsidiary A to PRC Subsidiary C; and (b) PRC Subsidiary B to PRC Subsidiary C, the "Intra-group Advances Cap Amounts") for the two years ending 31 December 2010:

| | The aggregate highest daily balance of advances for the period from 25 July 2008 to 31 December 2008 RMB'000 | The aggregate highest daily balance of advances for the eight months ended 31 August 2009 RMB'000 | The aggregate closing balance as at 31 August 2009 RMB'000 | Intra-group Advances Cap Amounts for the year ending 31 December 2009 2010 RMB'000 RMB'000 <i>(note)</i> | |
|--|---|---|---|---|---------|
| Intra-group Advances Transactions (excluding the provision of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) | 372,265 | 709,317 | 610,698 | 610,698 | 400,000 |

Note: For the period from the effective date of the Intra-group Advances Master Contract to 31 December 2009

We understand from the management of the Group that the Intra-group Advances Cap Amounts for the Intra-group Advances Transactions under the Intra-group Advances Master Contract for the two years ending 31 December 2010 were determined among the parties after arm's length negotiations principally based on (i) the past funding needs of the PRC Subsidiaries (excluding the provision of advances by (a) PRC Subsidiary A to PRC Subsidiary C; and (b) PRC Subsidiary B to PRC Subsidiary C); (ii) the aggregate closing balance as at 31 August 2009; and (iii) the Loan Facility to be obtained by PRC Subsidiary A.

In evaluating the Intra-group Advances Cap Amounts, we have reviewed the aggregate highest daily balance of advances (excluding the provision of advances by (a) PRC Subsidiary A to PRC Subsidiary C; and (b) PRC Subsidiary B to PRC Subsidiary C) for the period from 25 July 2008 to 31 December 2008 and the eight months ended 31 August 2009. We noted that the Intra-group Advances Cap Amount for the year ending 31 December 2009 is equal to the aggregate closing balance of advances of the PRC Subsidiaries (excluding the provision of advances by (a) PRC Subsidiary A to PRC Subsidiary C; and (b) PRC Subsidiary B to PRC Subsidiary C) as at 31 August

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2009, and understand that the Intra-group Advances Cap Amount for the year ending 31 December 2010 of RMB400 million is determined after taken into account the balance of advances of the PRC Subsidiaries (excluding the provision of advances by (a) PRC Subsidiary A to PRC Subsidiary C; and (b) PRC Subsidiary B to PRC Subsidiary C) as at 31 August 2009 of approximately RMB611 million and the Loan Facility of RMB400 million to be obtained by PRC Subsidiary A, part of which would be used gradually to repay the advances under the Intra-group Advances Transactions, as described in the section “III. PRC Subsidiary A Guarantee” below.

Having considered that (i) the Intra-group Advances Cap Amounts were determined based on the historical funding requirements of the PRC Subsidiaries (excluding the provision of advances by (a) PRC Subsidiary A to PRC Subsidiary C; and (b) PRC Subsidiary B to PRC Subsidiary C); (ii) the Intra-group Advances Cap Amount for the year ending 31 December 2009 is equal to the aggregate closing balance of advances of the PRC Subsidiaries (excluding the provision of advances by (a) PRC Subsidiary A to PRC Subsidiary C; and (b) PRC Subsidiary B to PRC Subsidiary C) as at 31 August 2009; and (iii) the Intra-group Advances Cap Amount for the year ending 31 December 2010 has further taken into account the Loan Facility to be obtained by PRC Subsidiary A which would gradually reduce the amount of the Intra-group Advances Transactions, we are of the view that the Intra-group Advances Cap Amounts are fair and reasonable. The Intra-group Advances Transactions under the Intra-group Advances Master Contract are subject to annual review by the independent non-executive Directors and the Company’s auditors, detailed requirements are set out in the paragraph headed “Reporting requirements and conditions of the Continuing Connected Transactions” below. Such annual review shall safeguard the interests of the Independent Shareholders and the Shareholders.

III. PRC SUBSIDIARY A GUARANTEE

1. *Background to and reasons for the PRC Subsidiary A Guarantee*

After completion of the Acquisition on 25 July 2008, the PRC Subsidiaries have made various advances among themselves as described in the section headed “II. Intra-group Advances Transactions” above. We are advised that, in order to (i) repay part of the advances under the Intra-group Advances Transactions due among the PRC Subsidiaries, (ii) refinance the existing banking facilities of PRC Subsidiary A when due whereas some of which were guaranteed by independent third parties; (iii) reduce the finance costs of PRC Subsidiary A; and (iv) finance PRC Subsidiary A’s general working capital requirements so as to reduce the amount of the Intra-group Advances Transactions, PRC Subsidiary A will enter into a loan agreement with the Bank (the “Bank Loan Agreement”) pursuant to which the Bank will agree to grant a revolving loan facility of up to RMB400 million (the “Loan Facility”) to PRC Subsidiary A for a period of 2 years commencing from the effective date of the Bank Loan Agreement. As the provision of the PRC

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Subsidiary A Guarantee is one of the conditions to the grant of the Loan Facility to be obtained by PRC Subsidiary A, the Company will enter into an agreement with the Bank pursuant to which the Company will agree to provide the PRC Subsidiary A Guarantee in favour of the Bank to secure the payment obligation of PRC Subsidiary A.

As set out in the interim report of the Company for the six months ended 30 June 2009 (the "Interim Report"), there were cross guarantee between PRC Subsidiary A and independent third parties. We understand that the bank loans guaranteed between PRC Subsidiary A and the independent third parties will be expired in 2009 and the Loan Facility would allow the Group to release the cross guarantees provided between PRC Subsidiary A and independent third parties. As advised by the management of the Group, it is a common practice for banks in the PRC to request for guarantee from third party to secure loan facility granted to borrowers, and the provision of the PRC Subsidiary A Guarantee is the request of the Bank for the grant of the Loan Facility to PRC Subsidiary A. Meanwhile, PRC Subsidiary B, being one of the shareholders of PRC Subsidiary A, will provide a counter-guarantee in favour of the Company for the amount guaranteed by the Company up to its proportionate interest in PRC Subsidiary A.

We are also advised that the management of the Group have considered other financing alternatives to the Loan Facility to be obtained by PRC Subsidiary A such as granting of shareholders' loan or equity investment. The management of the Group considered these options less desirable as it would require immediate funding from the Company and utilize the internal resources of the Company.

Having considered (i) the benefits from the entering into of the Bank Loan Agreement including (a) partial repayment of the advances under the Intra-group Advances Transactions, (b) refinancing of the existing banking facilities of PRC Subsidiary A with the Loan Facility with lower interest rate, and (c) the elimination of the cross guarantees provided between PRC Subsidiary A and independent third parties, where the provision of the PRC Subsidiary A Guarantee is one of the conditions of the grant of the Loan Facility; (ii) the Company is able to exercise significant influence on PRC Subsidiary A as it is owned effectively as to 87.75% by the Company, and the majority of the board members of PRC Subsidiary A are appointed by the Company; (iii) the provision of the PRC Subsidiary A Guarantee is the request of the Bank which is a common practice for banks in the PRC; and (iv) the other shareholder of PRC Subsidiary A will provide the counter-guarantee in favour of the Company up to its proportionate interest in PRC Subsidiary A, we are of the view that although the provision of the PRC Subsidiary A Guarantee is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. *Maximum amount under the PRC Subsidiary A Guarantee*

Under the PRC Subsidiary A Guarantee, the Company will agree to provide guarantee in favour of the Bank to secure the payment obligation of PRC Subsidiary A under the Bank Loan Agreement, the aggregate maximum liabilities of the Company in respect of the PRC Subsidiary A Guarantee is limited to RMB400 million plus any interest accrued thereon, any payment to be paid by PRC Subsidiary A upon default of its repayment obligation, any costs and expenses for enforcing the PRC Subsidiary A Guarantee, and any loss and other relevant expenses incurred by the Bank upon default of the payment obligation by PRC Subsidiary A (the "Maximum Guarantee").

As a measure to protect the interests of the Company from potential liabilities under the Maximum Guarantee, PRC Subsidiary B, being the shareholder of PRC Subsidiary A, will provide a counter-guarantee in favour of the Company up to its proportionate interest in PRC Subsidiary A. Accordingly, the PRC Subsidiary A Guarantee provided by the Company during the term of the Bank Loan Agreement is limited to the extent that is in proportion to the Company's shareholding in PRC Subsidiary A.

We are advised that the Company is confident that PRC Subsidiary A will be able to fulfil its payment obligation under the Bank Loan Agreement based on the financial position of PRC Subsidiary A. In this regard, we have reviewed the audited report of PRC Subsidiary A for the year ended 31 December 2008 prepared in accordance with the accounting principles generally accepted in the PRC (the "PRC Subsidiary A 2008 Report") and noted that PRC Subsidiary A recorded audited net profit of approximately RMB436.4 million for the year ended 31 December 2008 and had audited net assets of approximately RMB654.9 million as at 31 December 2008. Based on the above, we concur with the Company that PRC Subsidiary A should be able to fulfil its payment obligation under the Bank Loan Agreement.

Given that (i) PRC Subsidiary A is one of the principal operating subsidiaries of the Group and contributed a significant portion of revenue and profit to the Group for the year ended 31 December 2008; (ii) the Company is able to exercise significant influence on PRC Subsidiary A as it is owned as to 87.75% by the Company, and the majority of the board members of PRC Subsidiary A are appointed by the Company; (iii) PRC Subsidiary A is expected to be able to fulfil its payment obligation under the Bank Loan Agreement based on its strong financial position; and (iv) the counter-guarantee to be provided by PRC Subsidiary B effectively limits the Company's liability under the Maximum Guarantee to its proportionate interest in PRC Subsidiary A, we consider the terms of the PRC Subsidiary A Guarantee, including the Maximum Guarantee, are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. *Financial effects of the PRC Subsidiary A Guarantee*

As advised by the management of the Group, the provision of the PRC Subsidiary A Guarantee will not have any impact on the profitability, gearing and cashflow of the Company unless and until such time that the PRC Subsidiary A Guarantee is called upon. However, the Company will be exposed to a contingent obligation of approximately RMB400 million as a result of the PRC Subsidiary A Guarantee during the term of the PRC Subsidiary A Guarantee, representing approximately 3.0% of the Group's unaudited consolidated net assets of approximately HK\$13,119.3 million as at 30 June 2009.

Apart from assessing the Group's financial ability in regards to the provision of the PRC Subsidiary A Guarantee, we have also discussed with the management of the Company regarding the financial position and operation of PRC Subsidiary A. We have reviewed the PRC Subsidiary A 2008 Report and noted that PRC Subsidiary A recorded audited net profit of approximately RMB436.4 million for the year ended 31 December 2008. In addition, PRC Subsidiary A had audited net assets of approximately RMB654.9 million as at 31 December 2008. Further, as at 31 December 2008, PRC Subsidiary A had audited net current assets of approximately RMB288.5 million. The management of the Group also advised that PRC Subsidiary A has not defaulted on repayment of any interest or principals of its existing loan facilities since completion of the Acquisition.

Having considered (i) the contingent obligation of approximately RMB400 million for the Company as a result of the PRC Subsidiary A Guarantee only represents approximately 3.0% of the Group's unaudited consolidated net assets as at 30 June 2009; (ii) the profitable operation and financial position of PRC Subsidiary A for the year ended 31 December 2008; and (iii) PRC Subsidiary A has not defaulted on repayment of any interest or principal of its existing loan facilities since completion of the Acquisition, we are of the view that the provision of the PRC Subsidiary A Guarantee is not expected to have material adverse financial effect to the Group.

IV. REPORTING REQUIREMENTS AND CONDITIONS OF THE CONTINUING CONNECTED TRANSACTIONS

Pursuant to Listing Rules 14A.37 to 14A.40, the Continuing Connected Transactions are subject to the following annual review requirements:

- (i) each year the independent non-executive Directors must review the Continuing Connected Transactions, and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) each year the auditors of the Group must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Continuing Connected Transactions:
 - (a) have received the approval of the Board;
 - (b) are in accordance with the pricing policies of the Group;
 - (c) have been entered into in accordance with the relevant agreement governing the Continuing Connected Transactions; and
 - (d) have not exceeded the relevant Revised Cap Amounts, the Intra-group Advances Cap Amounts and the Maximum Guarantee;
- (iii) the Group shall allow, and shall procure that the counterparties to the Continuing Connected Transactions shall allow, the auditors of the Group sufficient access to their records for the purpose of reporting on the Continuing Connected Transactions as set out in paragraphs (ii); and
- (iv) the Group shall promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Group will not be able to confirm the matters set out in paragraphs (i) and (ii) respectively.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Revised Cap Amounts, the Intra-group Advances Cap Amounts and the Maximum Guarantee; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Group of the terms of the Continuing Connected Transactions, and the Revised Cap Amounts, the Intra-group Advances Cap Amounts and the Maximum Guarantee not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders and the Shareholders.

As mentioned in the Announcement, during the course of the internal control review and the management internal review, it was noted that (i) the amount incurred on the transactions conducted under the First Revised Supply Contract in respect of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accessories and Small Tools Transactions has exceeded the cap amount for the year ending 31 December 2009 as approved by the then independent Shareholders at the December 2008 EGM; and (ii) the PRC Subsidiaries have made various advances among themselves since the completion of the Acquisition on 25 July 2008 without written agreement.

Given that the Company has taken immediate action to remedy the situation and the Company is implementing the plan to improve and strengthen the internal control system of the Group, we are of the view that appropriate measures will be in place to monitor the Continuing Connected Transactions, thereby safeguarding the interests of the Independent Shareholders and the Shareholders.

RECOMMENDATION

Having taken into account the principal factors mentioned under the section headed "I. The Accessories and Small Tools Transactions" above, we consider that the terms of the Second Revised Supply Contract, including the Revised Cap Amounts, are fair and reasonable and the entering into of the Second Revised Supply Contract is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Despite the Intra-group Advances Transactions are not on normal commercial terms and not in the ordinary and usual course of business of the Group, having taken into account the principal factors mentioned under the section headed "II. Intra-group Advances Transactions" above, on balance, we consider that the terms of the Intra-group Advances Master Contract are fair and reasonable and the entering into of the Intra-group Advances Master Contract is in the interests of the Company and the Shareholders as a whole.

After taken into account the principal factors mentioned under the section headed "III. PRC Subsidiary A Guarantee" above, notwithstanding the PRC Subsidiary A Guarantee is not provided in the ordinary and usual course of business of the Group, we consider that the PRC Subsidiary A Guarantee is on normal commercial terms and fair and reasonable and the provision of the PRC Subsidiary A Guarantee is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Continuing Connected Transactions.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Helen Zee
Managing Director

Fanny Lee
Executive Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors

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

Directors' interest in Shares and underlying shares

| Name of Director | Number of Shares and underlying shares held | | | | Total interests | Percentage of shareholding |
|-------------------|---|--------------------------------|---|---------------------------------|--------------------------------------|----------------------------|
| | Personal interests | Family interests | Corporate interests | Options to subscribe for Shares | | |
| Mr. Wong Lik Ping | 176,971,900 (L) | - | 499,200,000 (L) (209,500,000) (S) <i>(Note a)</i> | 6,500,000 (L) | 682,671,900 (L) (209,500,000) (S) | 13.66% (L) (4.19%) (S) |
| Mr. Cao Zhong | 3,000,000 (L) | - | - | 15,000,000 (L) | 18,000,000 (L) | 0.36% (L) |
| Mr. Xue Kang | - | - | - | 9,000,000 (L) | 9,000,000 (L) | 0.18% (L) |
| Mr. So Kwok Hoo | 4,000,000 (L) | - | - | 3,500,000 (L) | 7,500,000 (L) | 0.15% (L) |
| Mr. Shi Jianping | 2,454,000 (L) | - | - | 4,500,000 (L) | 6,954,000 (L) | 0.14% (L) |
| Mr. Liu Qingshan | - | 330,000 (L) <i>(Note b)</i> | - | 6,000,000 (L) | 6,330,000 (L) | 0.13% (L) |
| Mr. Chen Zhouping | - | - | - | 6,000,000 (L) | 6,000,000 (L) | 0.12% (L) |

| Name of Director | Number of Shares and underlying shares held | | | Options to subscribe for Shares | Total interests | Percentage of shareholding |
|------------------------------|---|------------------|------------------------|---------------------------------------|-----------------|-------------------------------|
| | Personal interests | Family interests | Corporate interests | | | |
| Mr. Leung Shun Sang, Tony | - | - | - | 6,000,000 (L) | 6,000,000 (L) | 0.12% (L) |
| Mr. Kee Wah Sze | - | - | - | 4,000,000 (L) | 4,000,000 (L) | 0.08% (L) |
| Mr. Choi Wai Yin | - | - | - | 4,000,000 (L) | 4,000,000 (L) | 0.08% (L) |
| Mr. Chan Pat Lam | - | - | - | 4,000,000 (L) | 4,000,000 (L) | 0.08% (L) |

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

Note a: Mr. Wong Lik Ping was the beneficial owner of the entire issued share capital of China Merit Limited, which held 499,200,000 Shares in long position and 209,500,000 Shares in short position as at the Latest Practicable Date.

Note b: The spouse of Mr. Liu Qingshan was the beneficial shareholder as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company, had an interest or short position in the Shares and underlying Shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code of the Listing Rules to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company under section 336 of the SFO, the persons other than a Director or chief executive of the Company who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Interest in Shares and underlying shares

| Name of Shareholder | Capacity | Number of Shares and underlying shares held | Total number of Shares and underlying shares held | Percentage of shareholding |
|---|--------------------|---|---|----------------------------|
| Shougang Holding (Hong Kong) Limited ("Shougang Holding") | Beneficial owner | 109,089,993 (L) | 1,323,008,490 (L) | 26.47% (L) |
| | Corporate interest | 1,213,918,497 (L) (Note a) | | |
| Shougang Concord International Enterprises Company Limited ("Shougang International") | Corporate interest | 1,213,918,497 (L) (Note a) | 1,213,918,497 (L) | 24.29% (L) |
| Fine Power Group Limited | Beneficial owner | 450,000,000 (L) (Note a) | 450,000,000 (L) | 9.00% (L) |
| Mr. Xing | Beneficial owner | 4,500,000 (L) | 521,844,536 (L) | 10.44% (L) |
| | Corporate interest | 517,344,536 (L) | (420,000,000) (S) | (8.40%) (S) |
| | Corporate interest | (420,000,000) (S) (Note b) | | |
| Firstwealth Holdings Limited | Beneficial owner | 517,344,536 (L) | 517,344,536 (L) | 10.35% (L) |
| | Beneficial owner | (420,000,000) (S) (Note b) | (420,000,000) (S) | (8.40%) (S) |
| China Merit Limited | Beneficial owner | 499,200,000 (L) | 499,200,000 (L) | 9.99% (L) |
| | Beneficial owner | (209,500,000) (S) | (209,500,000) (S) | (4.19%) (S) |
| China Resources National Corporation | Corporate interest | 420,000,000 (L) (Note c) | 420,000,000 (L) | 8.40% (L) |
| China Resources Co., Limited | Corporate interest | 420,000,000 (L) (Note c) | 420,000,000 (L) | 8.40% (L) |
| CRC Bluesky Limited | Corporate interest | 420,000,000 (L) (Note c) | 420,000,000 (L) | 8.40% (L) |

| Name of Shareholder | Capacity | Number of Shares and underlying shares held | Total number of Shares and underlying shares held | Percentage of shareholding |
|---|--------------------|---|--|-------------------------------|
| China Resources (Holdings) Company Limited | Corporate interest | 420,000,000 (L) (Note c) | 420,000,000 (L) | 8.40% (L) |
| CR Corporate Affairs Limited | Beneficial owner | 420,000,000 (L) (Note c) | 420,000,000 (L) | 8.40% (L) |
| 華潤深國投信託有限公司 | Other | 420,000,000 (L) | 420,000,000 (L) | 8.40% (L) |

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

Note a: Pursuant to the substantial shareholder notices of Shougang Holding and Shougang International dated 25 September 2009, Shougang Holding held 42.15% interests in Shougang International which in turn indirectly held 100% interests in Ultimate Capital Limited and directly held 100% interests in Fine Power Group Limited and Sky Choice International Limited. Ultimate Capital Limited, Fine Power Group Limited and Sky Choice International Limited owned 550,000,000 Shares, 450,000,000 Shares and 213,918,497 Shares respectively as at 22 September 2009.

Note b: Pursuant to the substantial shareholder notices of Mr. Xing and Firstwealth Holdings Limited dated 25 September 2009, Mr. Xing held 100% interests in Firstwealth Holdings Limited, which owned 517,344,536 Shares in long position and 420,000,000 Shares in short position as at 24 September 2009. Mr. Xing held 4,500,000 options to subscribe for Shares as at the Latest Practicable Date.

Note c: Pursuant to the substantial shareholder notices dated 21 August 2009, (i) China Resources National Corporation held 99.98% interests in China Resources Co., Limited; (ii) China Resources Co., Limited held 100% interests in CRC Bluesky Limited; (iii) CRC Bluesky Limited held 100% interests in China Resources (Holdings) Company Limited; (iv) China Resources (Holdings) Company Limited held 100% interests in CR Corporate Affairs Limited which owned 420,000,000 Shares as at 20 August 2009.

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

(c) Service Contracts

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

(d) Interests in other competing business

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

3. LITIGATION

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

4. EXPERT'S QUALIFICATION AND CONSENT

First Shanghai Capital Limited has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of its respective letters and references to its respective name in the form and context in which it respectively appear.

The following are the qualifications of the expert who has given its respective opinion or advice which are contained in this circular:

| Name | Qualification |
|--------------------------------|---|
| First Shanghai Capital Limited | A licensed corporation under the SFO to conduct Type 6 (advising on corporate finance) regulated activity |

As at the Latest Practicable Date, First Shanghai Capital Limited did not have any direct or indirect interest in any asset which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2008, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Group were made up.

6. GENERAL

- (a) Save for the Disposal Agreement (as defined in the Announcement) entered into between the Company and Mr. Wong Lik Ping, a Director, on 6 October 2009, pursuant to which the Company agreed to sell and Mr. Wong Lik Ping agreed to purchase the Sale Shares (as defined in the Announcement) and the Sale Loan (as defined in the Announcement) at a total cash consideration of HK\$15,500,000, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2008, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.
- (b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.
- (c) The Company Secretary of the Company is Ms. Cheng Man Ching, a fellow member of each of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and an associate member of the Hong Kong Institute of Bankers. She holds a master degree in business administration and a master degree in arts.
- (d) The registered address of the Company is 6th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The share registrars of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (f) The English text of this circular shall prevail over their respective Chinese text for the purpose of interpretation.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's registered office at 6th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road Wanchai, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the two years ended 31 December 2008;
- (c) the interim report of the Company for the six months ended 30 June 2009;

- (d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 17 to 18 of this circular;
- (e) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 32 of this circular;
- (f) the written consent referred to in the paragraph headed “Expert’s Qualification and Consent” in this Appendix;
- (g) the Second Revised Supply Contract;
- (h) the Intra-group Advances Master Contract;
- (i) the circular of the Company dated 13 October 2009;
- (j) the Disposal Agreement; and
- (k) this circular.

NOTICE OF EGM



福山國際能源集團有限公司

FUSHAN INTERNATIONAL ENERGY GROUP LIMITED

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

(Stock Code: 639)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Fushan International Energy Group Limited (the “Company”) will be held at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Friday, 13 November 2009 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the revised supply contract dated 6 October 2009 (the “Second Revised Supply Contract”) entered into between Shanxi Liulin Xingwu Coalmine Company Limited (“PRC Subsidiary A”), Shanxi Liulin Jinjiazhuang Coal Company Limited (“PRC Subsidiary B”), Shanxi Liulin Zhaiyadi Coal Company Limited (“PRC Subsidiary C”) (together known as “PRC Subsidiaries”) and Mr. Xing Libin and his associates, a copy of the Second Revised Supply Contract is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose, be and is hereby confirmed, approved and ratified;
- (b) the cap amounts in respect of the Second Revised Supply Contract as set out in the circular of the Company dated 28 October 2009 (the “Circular”) for each of the two financial years ending 31 December 2010 be and is hereby confirmed and approved; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary and if and where required, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Second Revised Supply Contract and to give effect to the Second Revised Supply Contract.”

2. “**THAT**

- (a) the contract dated 6 October 2009 (the “Intra-group Advances Master Contract”) entered into among the PRC Subsidiaries pursuant to which the PRC Subsidiaries agreed that each of the PRC Subsidiaries will make unsecured and interest-free advances to one another (excluding the provision

NOTICE OF EGM

of advances by (i) PRC Subsidiary A to PRC Subsidiary C; and (ii) PRC Subsidiary B to PRC Subsidiary C) for a term commencing on the effective date of the Intra-group Advances Master Contract and ending on 31 December 2010, a copy of the Intra-group Advances Master Contract is tabled at the meeting and marked "B" and initialled by the chairman of the meeting for identification purpose, be and is hereby confirmed, approved and ratified;

- (b) the cap amounts in respect of the Intra-group Advances Master Contract as set out in the Circular for each of the two financial years ending 31 December 2010 be and is hereby confirmed and approved; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary and if and where required, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Intra-group Advances Master Contract and to give effect to the Intra-group Advances Master Contract."

3. "THAT

- (a) the guarantee to be provided by the Company to China Merchant Bank Company Limited, Shenzhen Branch (the "Bank") in respect of a loan facility of up to RMB400,000,000 made available by the Bank to the PRC Subsidiary A (the "Guarantee to PRC Subsidiary A") pursuant to a loan agreement to be entered into between the Bank and the PRC Subsidiary A, a copy of the draft agreement in relation to Guarantee to PRC Subsidiary A is tabled at the meeting and marked "C" and initialled by the chairman of the meeting for identification purpose, be and is hereby confirmed and approved;
- (b) the aggregate maximum liabilities of the Company in respect of the Guarantee to PRC Subsidiary A ("Maximum Guarantee Amount") equivalent to RMB400,000,000 plus any interest accrued thereon, any payment to be paid by PRC Subsidiary A upon default of its repayment obligations, any costs and expenses for enforcing the Guarantee to PRC Subsidiary A and any loss and other relevant expenses incurred by the Bank upon default of the payment obligations by PRC Subsidiary A, be and is hereby confirmed and approved; and
- (c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary and if and where required, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Guarantee to PRC Subsidiary A and to give effect to the Guarantee to PRC Subsidiary A."

By Order of the Board
Cao Zhong
Chairman

Hong Kong, 28 October 2009

NOTICE OF EGM

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer or attorney duly authorised to sign the same.
3. Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or adjourned meeting or poll (as the case may be).
5. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting thereof or poll concerned (as the case may be) should you so wish, and in such an event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

As at the date of this notice, the Board comprises Mr. Cao Zhong (Chairman), Mr. Wong Lik Ping (Vice-chairman), Mr. So Kwok Hoo (Executive Director), Mr. Xue Kang (Executive Director), Mr. Liu Qingshan (Executive Director), Mr. Chen Zhouping (Non-executive Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Shi Jianping (Non-executive Director), Mr. Kee Wah Sze (Independent Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director) and Mr. Chan Pat Lam (Independent Non-executive Director).