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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)

(Stock Code: 639)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS

- Record 2009 operating profit of HK\$2,175 million (2008: HK\$1,025 million) – sharp increase by HK\$1,150 million or a year-on-year increase of 112%.
- Record 2009 net profit after tax of HK\$1,442 million (2008: HK\$707 million) – sharp increase by HK\$735 million or a year-on-year increase of 104%.
- Record 2009 net profits attributable to owners of the Company (“Owners”) of HK\$1,126 million (2008: HK\$568 million) – sharp increase by HK\$558 million or a year-on-year increase of 98%.
- Non-cash share-based compensation expense of HK\$110 million from granting of share options and one-off extraordinary non-cash item net transaction loss of HK\$221 million arising from acquisition of available-for-sale financial assets incurred in 2009 which aggregate reduced both 2009 net profits after tax and net profit attributable to Owners by HK\$331 million.
- 2009 Gross profit margin achieved at 68% (2008: 65%).
- 2009 EBITDA¹ of HK\$2,609 million (2008: HK\$1,186 million) – sharp increase by HK\$1,423 million or a year-on-year increase of 120%.
- 2009 basic earnings per share was HK23.53 cents (2008: HK16.86 cents).
- 2009 interim dividend and proposed final dividend are HK10 cents per share and HK11 cents per share respectively.

- Net assets of HK\$17,330 million as at 31 December 2009 (31 December 2008: HK\$12,449 million) – sharp increase by HK\$4,881 million or a year-on-year increase of 39%.
- Gearing ratio² was 5% as at 31 December 2009 (31 December 2008: 13%).

Note:

1. EBITDA is defined as operating profit plus depreciation and amortisation.
2. Gearing ratio is computed from total borrowings divided by total equity.

The board of directors (the “Board”) of Fushan International Energy Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009 with comparative figures for the year ended 31 December 2008. These final results have been reviewed by the Audit Committee of the Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>Notes</i>	2009 HK\$'000	2008 <i>HK\$'000</i>
Revenue	3	4,470,131	1,896,577
Cost of sales		(1,441,233)	(659,645)
Gross profit		3,028,898	1,236,932
Other operating income	5	44,776	47,592
Selling and distribution expenses		(230,551)	(59,759)
General and administrative expenses		(400,013)	(140,873)
Other operating expenses		(268,591)	(43,899)
Impairment loss recognised on the re-measurement of assets of disposal group		–	(15,305)
Operating profit		2,174,519	1,024,688
Gain on disposals of subsidiaries	6	38,264	–
Finance costs	7	(125,213)	(91,337)
Change in fair value of derivative financial instruments		4,370	–
Net transaction loss arising from acquisition of available-for-sale financial assets	13(a),(b)	(221,221)	–
Share of losses of associates		(386)	(225)
Profit before income tax	8	1,870,333	933,126
Income tax expense	9	(427,850)	(226,499)
Profit for the year		1,442,483	706,627
Other comprehensive income			
Fair value loss on available-for-sale financial assets		(100)	–
Exchange differences on translation of financial statements of foreign operations		1,353	17,472
Total comprehensive income for the year		1,443,736	724,099
Profit attributable to:			
Owners of the Company	10	1,126,274	567,649
Minority interests		316,209	138,978
Profit for the year		1,442,483	706,627

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Total comprehensive income attributable to:			
Owners of the Company		1,126,788	573,887
Minority interests		316,948	150,212
		<hr/>	<hr/>
Total comprehensive income for the year		1,443,736	724,099
		<hr/> <hr/>	<hr/> <hr/>
		<i>HK (Cents)</i>	<i>HK (Cents)</i>
Earnings per share for profit attributable to owners of the Company			
	<i>12</i>		
– Basic		23.53	16.86
– Diluted		23.04	16.54
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,535,879	2,062,535
Prepaid lease payments		56,273	61,819
Mining rights		10,289,882	10,545,819
Goodwill		2,080,050	2,079,145
Interests in associates		19,196	19,573
Available-for-sale financial assets	13	2,214,369	8,403
Deposits, prepayments and other receivables		323,004	264,665
Amount due from a party		937,150	218,712
Deferred tax assets		20,191	–
		18,475,994	15,260,671
Current assets			
Inventories		159,485	187,465
Trade and bills receivables	14	1,113,647	999,408
Deposits, prepayments and other receivables		196,022	215,801
Amounts due from other parties		376,044	1,495,944
Financial assets at fair value through profit or loss		25,967	–
Pledged bank deposits		105,771	168,941
Cash and cash equivalents		2,104,478	760,163
Assets classified as held for sale		–	163,875
		4,081,414	3,991,597
Current liabilities			
Liabilities directly associated with assets classified as held for sale		–	29,238
Trade and bills payables	15	328,732	380,795
Other payables and accruals		1,753,024	1,819,680
Borrowings		162,420	1,590,917
Amount due to a director		–	20,000
Amounts due to other parties		27,526	51,137
Amounts due to related companies		12,008	12,316
Amounts due to minority equity holders of subsidiaries		42,964	97,203
Tax payables		245,695	399,966
		2,572,369	4,401,252
Net current assets/(liabilities)		1,509,045	(409,655)
Total assets less current liabilities		19,985,039	14,851,016

	<i>Notes</i>	2009 HK\$'000	2008 HK\$'000
Non-current liabilities			
Borrowings		643,665	35,171
Other long term payables		–	238,550
Deferred tax liabilities		2,011,610	2,128,298
		<u>2,655,275</u>	<u>2,402,019</u>
Net assets		<u>17,329,764</u>	<u>12,448,997</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>16</i>	537,056	456,456
Reserves		15,288,138	10,365,283
		15,825,194	10,821,739
Minority interest		1,504,570	1,627,258
Total equity		<u>17,329,764</u>	<u>12,448,997</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL INFORMATION

Fushan International Energy Group Limited (the “Company”) is a limited liability company incorporated and domiciled in Hong Kong. Its registered office address is 6th Floor, Bank of East Asia Harbour View Centre, No. 56 Gloucester Road, Wanchai, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Group’s principal places of the business are in Hong Kong and the People’s Republic of China (the “PRC”). The Company and its subsidiaries are referred to as the “Group” hereinafter.

The principal activity of the Company is investment holdings. One of the Group’s wholly-owned subsidiaries, Jade Green Investments Limited (“Jade Green”) and Mr. Wong Lik Ping (“Mr. Wong”), one of the substantial shareholders, entered into a sale and purchase agreement (the “Agreement”) with Mr. Xing Libin (“Mr. Xing”), the controlling shareholder of Fortune Dragon Group Limited (“Fortune Dragon”) on 9 May 2008 and the Agreement for the acquisitions of three companies, namely Thechoice Finance Limited (“Thechoice”), Worldman Industrial Limited (“Worldman”) and Gumpert Industries Limited (“Gumpert”), all of which are incorporated in the British Virgin Islands (the “BVI”) (collectively as “Very Substantial Acquisition”) was completed on 25 July 2008. Since then, these companies became the subsidiaries of the Group. These companies are all engaged in coking coal mining and production and sales of raw and clean coking coal in the PRC through their non-wholly owned PRC subsidiaries, each of which has coalmines. These PRC subsidiaries are Shanxi Liulin Xingwu Coal Co., Limited (“Xingwu”), Shanxi Liulin Jinjiazhuang Coal Co., Limited (“Jinjiazhuang”) and Shanxi Liulin Zhaiyadi Coal Co., Limited (“Zhaiyadi”). Details of the Very Substantial Acquisition were set out in the Company’s circular dated 25 June 2008.

On 15 January 2009, one of the Group’s subsidiaries, Shanxi Jinshan Energy Limited (“Jinshan”) completed the disposals of its 70% equity interest in Taiyuan Xishan Risheng Coal and Coking Co., Limited (“Risheng”) to a subsidiary of the minority shareholder of Risheng (the “Disposal”) for a cash consideration of Renminbi (“RMB”) 110,000,000 (HK\$124,971,000 equivalent). Furthermore, on 19 April 2008, Jinshan agreed to assume liabilities of HK\$102,519,000 in Risheng’s books due to various creditors and Mr. Wong agreed to assume the liabilities amounting to RMB35,000,000 (HK\$39,763,000 equivalent) owed by Jinshan to two creditors for nil consideration.

Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal were set out in the Company’s circular dated 29 December 2008 and the Company’s announcement (the “Announcement”) dated 15 January 2009.

On 1 December 2009 (“Completion Date”), the Group completed the acquisition of 154,166,874 shares issued by Mount Gibson Iron Limited (“Mount Gibson”), which accounted for approximately 14.34% of the issued share capital of Mount Gibson, from a wholly-owned subsidiary of Shougang Concord International Enterprises Company Limited (“Shougang International”) at a consideration of HK\$1,604,389,000 (being the fair value of the First Consideration Shares on Completion Date). The consideration was satisfied in full by allotment and issue of 213,918,497 new shares of the Company (the “First Consideration Shares”). Mount Gibson was incorporated under the laws of Australia and its shares are listed on The Australian Securities Exchange Limited (the “Australian Securities Exchange”). The principal business of Mount Gibson is mining of hematite iron ore deposits at Koolan Island, Tallering Peak and exploration and development of hematite iron ore deposits in Western Australia. Mount Gibson is a pure hematite exploration and mining company which owns iron ore deposits and holds mining rights.

On Completion Date, the Group also completed the acquisition of the entire issued share capital of Benefit Rich Limited (“Benefit Rich”) from Shougang Holding (Hong Kong) Limited (“Shougang Holding”) at a consideration of HK\$818,175,000 (being the fair value of the Second Consideration Shares on Completion Date). The consideration was satisfied in full by allotment and issue of 109,089,993 new shares of the Company (the “Second Consideration Shares”). The sole asset held by Benefit Rich is its equity interest in 956,000,000 shares issued by APAC Resources Limited (“APAC”), which accounted for approximately 16.80% of the issued share capital of APAC. APAC’s shares are listed on the Stock Exchange. Details of these two acquisitions on 1 December 2009 are set out in the Company’s announcement dated 22 September 2009.

On 31 December 2009, the Group disposed of the entire issued share capital of Jumbo Hall International Limited (“Jumbo Hall”) at a cash consideration of HK\$15,500,000. The sole interest of Jumbo Hall is its interest in the property which was used by the Company as its registered office in Hong Kong. Details of the above transaction are set out in the Company’s announcement dated 7 October 2009.

The principal activities of the Group’s subsidiaries comprise coking coal mining, the production and sales of coking coal products and side products. Other than the acquisition and the disposal transactions as described above in this note, there were no significant changes in the Group’s operations during the year.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretation (“Int”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 15 April 2010.

2. ADOPTION OF NEW AND AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
Various Annual improvements to HKFRSs 2008	

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group’s assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a “Statement of comprehensive income”. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting policies on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives had not affected the consolidated or company statements of financial position at 1 January 2008 and accordingly these statements are not presented.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

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

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

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and not provided comparative information in respect of the new requirements.

HKFRS 8 Operating segments

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

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements are not set out in these financial statements.

HKFRS 3 Business combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

Annual improvements 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

3. REVENUE/TURNOVER

Revenue from the Group's principal activities recognised during the year is as follows:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of raw coal	2,967,059	1,315,771
Sales of clean coal	1,293,617	495,790
Sales of coke	209,455	85,016
	<u>4,470,131</u>	<u>1,896,577</u>

4. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines. The Group has identified the following reportable segments:

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

Coke production: Production of coke in the PRC

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as operating approaches. All inter-segment transfers are carried out at arms length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that change in fair value of derivative financial instruments, net transaction loss arising from acquisition of available-for-sale financial assets, gain on disposal of subsidiaries, finance costs, share of results of associates, income tax and corporate income and expenses which are not directly attributable to the business activities of any operating segment, are not included in arriving at the operating results of the operating segment.

Segment assets include property, plant and equipment, prepaid lease payments, mining rights, goodwill, inventories, receivables and operating cash and mainly exclude available-for-sale financial assets, deferred tax assets, interests in associates, financial assets at fair value through profit or loss and corporate assets which are not directly attributable to the business activities of any operating segment which primarily applies to the Group's headquarter.

Segment liabilities comprises operating liabilities and exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include tax payables, deferred tax liabilities and certain corporate borrowings.

	Coking		Coke production*		Consolidated	
	coal mining					
	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external results	<u>4,260,676</u>	<u>1,811,561</u>	<u>209,455</u>	<u>85,016</u>	<u>4,470,131</u>	<u>1,896,577</u>
Segment results	<u>2,445,187</u>	<u>1,148,068</u>	<u>(96,323)</u>	<u>(93,872)</u>	<u>2,348,864</u>	<u>1,054,196</u>
Unallocated corporate income and expenses					(174,345)	(29,508)
Operating profit					2,174,519	1,024,688
Gain on disposals of subsidiaries					38,264	–
Finance costs					(125,213)	(91,337)
Change in fair value of derivative financial instruments					4,370	–
Net transaction loss arising from acquisition of available-for-sale financial assets					(221,221)	–
Share of losses of associates					(386)	(225)
Profit before income tax					<u>1,870,333</u>	<u>933,126</u>
Income tax expense					(427,850)	(226,499)
Profit for the year					<u>1,442,483</u>	<u>706,627</u>

	Coking		Coke production*		Corporate		Consolidated	
	coal mining							
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	17,759,118	18,093,924	492,603	668,572	-	-	18,251,721	18,762,496
Interests in associates					19,196	19,573	19,196	19,573
Deferred tax assets					20,191	-	20,191	-
Available-for-sale financial assets					2,214,369	-	2,214,369	-
Financial assets at fair value through profit or loss					25,967	-	25,967	-
Other corporate assets					2,025,964	470,199	2,025,964	470,199
Total assets							22,557,408	19,252,268
Segment liabilities	1,873,943	2,072,200	277,919	104,436	-	-	2,151,862	2,176,636
Deferred tax liabilities					2,011,610	2,128,298	2,011,610	2,128,298
Tax payables					245,695	399,966	245,695	399,966
Borrowings					806,085	1,626,088	806,085	1,626,088
Other corporate liabilities					12,392	472,283	12,392	472,283
Total liabilities							5,227,644	6,803,271
Other segment information								
Capital expenditure	622,534	12,427,081	28,793	235,005	3,562	-	654,889	12,662,086
Depreciation	128,620	40,601	43,288	21,869	503	247	172,411	62,717
Amortisation of mining rights	260,581	97,923	-	-	-	-	260,581	97,923
Amortisation of prepaid lease payments	1,164	568	234	232	107	107	1,505	907
Write-down of inventories to net realisable value	-	-	9,987	31,465	-	-	9,987	31,465
Provision for/(Write back) impairment of trade and other receivables	32,142	(6,474)	4,153	-	-	-	36,295	(6,474)

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

The Group's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

	Revenue from		Non-current assets	
	external customers			
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal markets				
PRC	4,470,131	1,896,577	16,238,095	15,245,054
Hong Kong	–	–	3,339	7,214
	<u>4,470,131</u>	<u>1,896,577</u>	<u>16,241,434</u>	<u>15,252,268</u>

The geographical location of customers is based on the location at which the goods were delivered. The geographical location of non-current assets is based on the physical location of the asset.

During 2009, HK\$633,588,000 or 14% of the Group's revenues depended on a single customer under coal mining segment. At 31 December 2009, 20% of the Group's trade and bills receivables was due from this customer.

5. OTHER OPERATING INCOME

	2009	2008
	HK\$'000	HK\$'000
Gain on sales of scrapped products	30,494	15,645
Other bank interest income	9,723	6,088
Bank interest income on escrow accounts	135	74
Gain on sales of purchase coal	1,539	10,939
Gain on disposals of property, plant and equipment	–	1,230
Write-back of impairment on other receivables	–	6,474
Exchange gain	–	7,142
Others	2,885	–
	<u>44,776</u>	<u>47,592</u>

6. GAIN ON DISPOSALS OF SUBSIDIARIES

(a) Disposal of Risheng

As described in Note 1 to the financial statements, one of the Group's subsidiaries, Jinshan, agreed to dispose of the Disposal to a subsidiary of the minority shareholder of Risheng, for a cash consideration of RMB110,000,000 (HK\$124,971,000 equivalent) on 19 April 2008. The Disposal was completed on 15 January 2009. Risheng is engaged in the production and sales of coke products in Shanxi, the PRC. Details of the Disposal were set out in the Company's circular dated 29 December 2008.

Furthermore, on 19 April 2009, Jinshan agreed to assume liabilities (as defined and described in the Announcement) of HK\$102,519,000 in Risheng's books due to various creditors and Mr. Wong, the shareholder and director of the Company, agreed to assume liabilities amounting to RMB35,000,000 (approximately HK\$39,763,000) owed by Jinshan to two creditors for nil consideration. Thus the Disposal led to a gain to Group of RMB26,049,000 (approximately HK\$29,594,000). Net assets/(liabilities) of Risheng at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets/(liabilities) disposed of:	
Property, plant and equipment	164,503
Deposits and other receivables	6
Bank and cash balances	115
Amount due to minority equity holders	(2,272)
Other payables	(169,057)
	<hr/>
	(6,705)
Minority interest	(437)
Liabilities due to two creditors by Jinshan assumed by Mr. Wong	39,763
Gain on disposal of Risheng	29,594
	<hr/>
Total consideration	62,215
	<hr/> <hr/>
Satisfied by:	
Cash consideration	124,971
Less: liabilities assumed by Jinshan	(102,519)
	<hr/>
	22,452
Liabilities due to two creditors by Jinshan assumed by Mr. Wong	39,763
	<hr/>
	62,215
	<hr/> <hr/>
An analysis of net inflow of cash and cash equivalents in respect of the disposal of Risheng is as follows:	
Cash consideration	124,971
Bank and cash balances disposed	(115)
	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of Risheng	124,856
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Having had estimated the cost to sell to be approximately HK\$500,000 and assessed the recoverable amounts of the relevant assets and liabilities, in the absence of Jinshan's subsequent undertakings of certain liabilities in Risheng's books due to various creditors and Mr. Wong's subsequent undertakings of certain liabilities on 19 April 2009, with reference to the sales proceeds, the directors considered that an impairment loss of HK\$15,305,000 was likely to be incurred and thus the amount is recognised in profit or loss for the year ended 31 December 2008.

Risheng did not contribute any revenue to the Group but contributed net loss of approximately HK\$5,804,000 in 2008. In view of the fact that Risheng does not represent a separate major line of business and its insignificant financial impact to the Group's result in 2008, the Disposal was not classified as discontinued operation and major assets and liabilities of Risheng were classified as assets held for sale and liabilities directly associated with assets classified held for sale respectively as at 31 December 2008.

(b) Disposal of Jumbo Hall

As also described in Note 1 to the financial statements, on 31 December 2009, the Group completed the disposals of entire issued share capital of Jumbo Hall at a total consideration of HK\$15,500,000, resulting in a gain to the Group of HK\$8,670,000. Details of the disposal were set out in the Company's announcement dated 7 October 2009. Net assets of Jumbo Hall at the date of disposal on 31 December 2009 was as follows:

	<i>HK\$'000</i>
Net assets disposed of:	
Property, plant and equipment	2,691
Prepaid lease payments	4,066
Deposits and other receivables	75
Other payables	(2)
	<hr/>
	6,830
Gain on disposal of Jumbo Hall	8,670
	<hr/>
Total consideration	15,500
	<hr/> <hr/>
Satisfied by:	
Cash consideration	15,500
	<hr/> <hr/>

7. FINANCE COSTS

	2009	2008
	HK\$'000	HK\$'000
Interest charged on:		
– bank borrowings repayable within five years	110,320	71,786
– other loans wholly repayable within five years	2,732	16,486
– amounts due to related companies wholly repayable within five years	–	358
– amounts due to minority equity holders of subsidiaries wholly repayable within five years	1,796	1,777
– convertible notes wholly repayable within five years	–	103
– early redemption of bills receivables	27,069	4,541
– finance charges on finance leases	418	133
	<hr/>	<hr/>
	142,335	95,184
Less: interest capitalised in construction in progress*	(17,122)	(3,847)
	<hr/>	<hr/>
Total finance costs	125,213	91,337
	<hr/> <hr/>	<hr/> <hr/>

* borrowing costs were capitalised at the rates ranging from 4% to 8% per annum for the year ended 31 December 2009 (2008: 6% to 7%).

8. PROFIT BEFORE INCOME TAX

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before income tax is arrived at after charging/(crediting):		
Auditors' remuneration		
– audit services	1,425	1,500
– other services	250	2,784
<i>Less:</i> capitalised as part of the investment cost in business acquisition	–	(2,222)
	1,675	2,062
Cost of inventories recognised as expenses	1,441,233	637,219
Amortisation of:		
– prepaid lease payments	1,505	907
– mining rights	260,581	97,923
Depreciation of property, plant and equipment		
– owned assets	170,769	62,076
– leased assets	1,642	641
Employee benefit expenses (including directors' emoluments and retirement benefits scheme contributions)	422,100	146,409
Net foreign exchange loss/(gain)	2,664	(7,142)
Operating lease charges in respect of land and buildings	23,272	8,400
Provision for impairment on trade and bills receivables	31,765	–
Provision for/(Write back) impairment on other receivables	4,530	(6,474)
Loss/(Gain) on disposals of property, plant and equipment	6,725	(1,230)
Write-down of inventories to net realisable value	9,987	31,465

9. INCOME TAX EXPENSE

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax – PRC income tax		
– Current year	565,161	153,453
– Under-provision in respect of prior year	505	–
Deferred tax		
– Current year	(137,816)	73,046
	427,850	226,499

No provision for Hong Kong profits tax has been provided in the financial statements as the Group had no assessable profit arising in Hong Kong in 2008 and 2009.

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

The Group was also subject to a withholding tax at the rate of 10% on the distributions of profits generated from the Group's major PRC subsidiaries with foreign investment as these subsidiaries were directly owned by the immediate holding companies incorporated in the BVI. Pursuant to the Group restructuring in November 2009, these major PRC subsidiaries with foreign investments are now directly owned by the Group's subsidiaries incorporated in Hong Kong, the withholding tax rate could be reduced to 5% on the distribution generated from these major PRC subsidiaries once it is approved by the PRC tax bureau.

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit for the year attributable to the owners of the Company of HK\$1,126,274,000 (2008: HK\$567,649,000), a profit of HK\$1,760,681,000 (2008: loss of HK\$20,602,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend of HK10 cents (2008: Nil) per ordinary share	499,596	–
Proposed final dividend of HK11 cents (2008: Nil) per ordinary share	591,862	–
	1,091,458	–

The proposed final dividend of HK11 cents per ordinary share after 31 December 2009 has not been recognised as a liability at 31 December 2009, but reflected as an appropriation of retained profits for the year ended 31 December 2009.

12. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share attributable to owners of the Company are based on the following data:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Profit attributable to owners of the Company	1,126,274	567,649
Interest on convertible notes	–	103
	<hr/>	<hr/>
Profit used to determine diluted earnings per share	<u>1,126,274</u>	<u>567,752</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,786,034	3,367,451
Effect of dilutive potential ordinary shares:		
– Share options	101,932	60,385
– Convertible notes	–	5,174
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>4,887,966</u>	<u>3,433,010</u>

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Equity securities, at fair value		
– listed in Australia (<i>Note (a)</i>)	1,761,422	–
– listed in Hong Kong (<i>Note (b)</i>)	444,540	–
	<hr/>	<hr/>
	2,205,962	–
Unlisted security fund investment, at cost	454	454
Unlisted equity interest, at cost (<i>Note (c)</i>)	7,953	7,949
	<hr/>	<hr/>
	<u>2,214,369</u>	<u>8,403</u>

Notes:

- (a) This represents an investment in listed securities issued by a company listed on the Australian Securities Exchange, Mount Gibson. As described in Note 1 to the financial statements, in September 2009, the Group reached an agreement with Sky Choice International Limited (“Sky Choice”), a wholly-owned subsidiary of Shougang International such that the Group, through one of its subsidiaries purchased from Sky Choice, 154,166,874 ordinary shares of Mount Gibson, accounting for approximately 14.34% of the issued share capital of Mount Gibson as at the date of completion, at a consideration of HK\$1,604,389,000. The transaction was completed on 1 December 2009 and the consideration was satisfied in full by allotment and issue of 213,918,497 new shares of the Company at HK\$7.5 per share. Detailed information about the operations of Mount Gibson is set out in the Company’s announcement dated 22 September 2009.

On the Completion Date at 1 December 2009, the fair value of the investment in Mount Gibson was HK\$1,661,142,000 which represents the closing price as at that day in the Australian Securities Exchange. As the fair value of the share considerations was HK\$1,604,389,000, a gain of HK\$54,393,000 (net of transaction cost of HK\$2,360,000) was recognised in the profit or loss.

As at 31 December 2009, the fair value of the investment in Mount Gibson was HK\$1,761,422,000 which represented the closing price as at that day in the Australian Securities Exchange. As the carrying value of the investment in Mount Gibson as at 1 December 2009 is HK\$1,661,142,000, a gain of HK\$100,280,000 was recognised in the security investment reserve.

- (b) This represents an investment in listed securities issued by a company listed on the Stock Exchange, APAC. As described in Note 1 to the financial statements, in September 2009, the Group reached another agreement with Shougang Holding such that the Group, through one of its subsidiaries, purchased from Shougang Holding the entire issued share capital of Benefit Rich which solely holds 956,000,000 shares of APAC (accounting for approximately 16.80% of the issued share capital of APAC as at the date of completion). The consideration for this transaction which was completed on 1 December 2009 and was satisfied in full by allotment and issue of 109,089,993 new shares of the Company at HK\$7.5 per share.

On the Completion Date at 1 December 2009, the fair value of the investment in APAC was HK\$544,920,000 which represents the closing price as at that day in the Stock Exchange. As the fair value of the share considerations was HK\$818,175,000, a loss of HK\$275,614,000 (net of transaction cost of HK\$2,359,000) was recognised in the profit or loss.

As at 31 December 2009, the fair value of the investment in APAC was HK\$444,540,000 which represented the closing price as at that day in the Stock Exchange. As the carrying value of the investment in APAC was HK\$544,920,000, a fair value loss of HK\$100,380,000 was recognised in the security investment reserve as at 31 December 2009.

- (c) This represents a 7% (2008: 7%) equity investment in an unlisted company incorporated in the PRC. The investee company has not yet commenced its business at 31 December 2009 and will be engaged in transportation business. The unlisted equity interest with a carrying amount of HK\$7,953,000 (2008: HK\$7,949,000) are measured at cost less impairment losses as there are no quoted market prices in active market and the range of reasonable fair value estimates is so significant that the director are of the opinion that its fair value cannot be measured reliably. The Group plans to hold this equity interest for the foreseeable future. In the opinion of directors, no impairment is considered necessary.

14. TRADE AND BILLS RECEIVABLES

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	557,439	830,394
<i>Less: Provision for impairment</i>	(44,859)	(13,089)
	<hr/>	<hr/>
	512,580	817,305
Bills receivables	601,067	182,103
	<hr/>	<hr/>
	1,113,647	999,408
	<hr/> <hr/>	<hr/> <hr/>

Trade receivables generally have credit terms ranging from 60 to 90 days and no interest is charged. The carrying amount of trade and bills receivables is considered a reasonable approximation of fair value as this financial asset, which is measured at amortised cost, is expected to be paid within a short timescale, such that the time value of money impact is not significant.

Included in bills receivables was a balance of RMB10,500,000 (HK\$11,929,000 equivalent) represented the advance drawn from banks discounted with recourse.

As at 31 December 2008, included in trade receivables was a balance of RMB72,000,000 (HK\$81,763,000 equivalent) pledged for a bank loan amounting to RMB70,000,000 (HK\$79,492,000 equivalent). As at 31 December 2009, no trade receivables are pledged as a security to the banking facilities granted to the Group.

At each reporting date, trade and bills receivables are individually determined to be impaired. The individually impaired receivables, if any, are recognised, based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. The Group does not hold any collateral over these balances.

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly. As at 31 December 2009, ageing analysis of net trade and bills receivables, based on the invoice dates, is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
0 – 90 days	832,505	442,728
91 – 180 days	122,023	289,269
181 – 365 days	91,086	68,585
Over 365 days	68,033	198,826
	<u>1,113,647</u>	<u>999,408</u>

Movement in the provision for impairment of trade receivables is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Balance at the beginning of the year	13,089	13,089
Exchange retranslation	5	–
Impairment loss recognised (<i>Note 8</i>)	31,765	–
	<u>44,859</u>	<u>13,089</u>

As at 31 December 2009, ageing analysis of trade and bills receivables that are not impaired is as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Neither past due nor impaired	929,983	442,728
1 – 90 days past due	30,397	289,269
91 – 180 days past due	43,367	8,238
181 – 365 days past due	60,323	157,093
Over 365 days past due	49,577	102,080
	<u>183,664</u>	<u>556,680</u>
	<u>1,113,647</u>	<u>999,408</u>

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

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

As at 31 December 2008, included in the balances categorised over 180 days past due are long outstanding balances due from certain customers amounting to approximately HK\$233,720,000 (RMB205,721,000 equivalent) (the “Overdue Debts”). Up to 31 December 2009, the Overdue Debts have been fully recovered.

15. TRADE AND BILLS PAYABLES

The Group was granted by its suppliers the credit period ranging between 30 and 180 days during the year. Based on the invoice dates, ageing analysis of trade and bills payables as at 31 December 2009 are as follows:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 90 days	214,758	278,580
91 – 180 days	26,805	76,586
181 – 365 days	25,435	12,041
Over 365 days	61,734	13,588
	<hr/> 328,732 <hr/>	<hr/> 380,795 <hr/>

As at 31 December 2009, bills payable of RMB90,300,000 (HK\$102,590,000 equivalent) (2008: RMB161,560,000 (HK\$183,468,000 equivalent)) were secured by pledged bank deposits of RMB93,100,000 (HK\$105,771,000 equivalent) (2008: RMB145,768,000 (HK\$165,534,000 equivalent)). Included in bills payables was a balance of RMB10,500,000 (HK\$11,929,000 equivalent) represented the advance drawn on bills receivables discounted with recourse.

16. SHARE CAPITAL

	Number of shares		Group and Company	
	2009 '000	2008 '000	2009 HK\$'000	2008 HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each				
At 31 December	10,000,000	5,000,000	1,000,000	500,000
Issued and fully paid:				
Ordinary shares of HK\$0.10 each				
At 1 January	4,564,555	2,422,388	456,456	242,239
Issue of new shares upon conversion of the notes in 2008 (<i>Note (a)</i>)	–	17,167	–	1,717
Placing of shares (<i>Note (b), (c)</i>)	400,000	860,000	40,000	86,000
Issue of shares consideration (<i>Note (d), (e)</i>)	323,008	1,260,000	32,300	126,000
Issue of new shares upon conversion of share options	83,000	5,000	8,300	500
At 31 December	5,370,563	4,564,555	537,056	456,456

Notes:

- (a) The zero coupon convertible notes with the principal amount of HK\$300,000,000 were issued on 20 April 2007 (the “Notes”) and were convertible into the shares of the Company at the conversion price (HK\$2.33 per share) within certain periods and conditions. In 2007, the Notes with the principal amount of HK\$260,000,000 had been converted into shares of the Company. In 2008, the Notes with the remaining principal amount of HK\$40,000,000 were all converted into 17,167,000 shares of the Company at the Conversion Price.
- (b) The Company and the placing agent entered into a placing agreement on 21 July 2009 pursuant to which the placing agent conditionally agreed to procure the places for a maximum of 400,000,000 new shares, at a price of HK\$4.38 per share. On 28 July 2009, 400,000,000 Placing Shares were issued under the general mandate granted to the directors at the Company’s annual general meeting held on 2 June 2009. Details of the transactions are set out in the Company’s announcements dated 21 July 2009. Net proceeds of approximately HK\$1,719,027,000 from the Placing Shares were received.

- (c) The Company and the placing agent entered into a placing agreement on 15 June 2008 pursuant to which the placing agent agreed to procure the places for a maximum of 450,000,000 new shares, at a price of HK\$4.60 per share. On the same date, the placing agent agreed to place to Fine Power Group Limited, a wholly-owned subsidiary of Shougang Holding, under the guarantee of Shougang Holding. Further on 20 June 2008, the Company entered into another placing agreement with the placing agent to procure places for 410,000,000 shares at the price of HK\$4.8 per share. In relation to these two share placing events, net proceeds of approximately HK\$3,800,000,000 were received and are mainly used to settle the partial cash consideration for the Very Substantial Acquisition as detailed in Note 1 to the financial statements. Details of the transactions were set out in the Company's announcements dated 21 May 2008, 17 June 2008 and 20 June 2008 respectively.
- (d) On 1 December 2009, the Company issued 323,008,490 ordinary shares of HK\$0.10 each at the fair value of HK\$7.50 per share to pay the consideration for the acquisitions of 154,166,874 shares in Mount Gibson and the acquisition of the entire issued share capital of Benefit Rich. Details of these acquisitions have been set out in Note 13(a) and (b) to the financial statements.
- (e) On 25 July 2008, the issued share capital of the Company was increased by the issue of 1,260,000,000 ordinary shares of HK\$0.10 each at the weighted average price of HK\$4.37 per share. The issuance of new shares is used as share consideration for the Very Substantial Acquisition as detailed in Note 1 to the financial statements.

17. COMMITMENTS

(a) Operating lease commitments

At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings payable by the Group are as follows:

	2009		2008	
	Land and buildings <i>HK\$'000</i>	Other assets <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Other assets <i>HK\$'000</i>
Within one year	10,684	–	6,233	1,136
In the second to fifth years	25,520	–	18,783	–
After five years	131,302	–	92,564	–
	<u>167,506</u>	<u>–</u>	<u>117,580</u>	<u>1,136</u>

The Group leases a number of land and buildings and other assets under operating leases arrangement. The leases run for an initial period of 1 to 50 years, without an option to renew the leases and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rental.

(b) **Capital commitments**

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for:		
– Acquisition of property, plant and equipment	357,541	445,302
– Exploration and design fees for a potential mining project	8,498	8,494
	<u>366,039</u>	<u>453,796</u>

(c) **Other commitments**

In accordance with a notice issued by the Liulin County Government of Shanxi Province (Liufa [2008] No.31), certain mining companies in Liulin County, including Xingwu, Jinjiazhuang and Zhaiyadi, are obliged to pay subsidies for the construction of modern schools in Liulin County and provision of educational facilities from 2009 to 2011. Such subsidies is recognised in profit or loss in the corresponding year. Management expects that two payments of RMB110,000,000 (approximately HK\$124,971,000) each are payable in 2010 and 2011.

18. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2009, Xingwu executed guarantees with respect to the bank loans and other loans, denominated in RMB282,000,000 (2008: RMB872,000,000), granted to two independent third parties. As at 31 December 2008, Zhaiyadi executed guarantees with respect to the bank loans denominated in RMB100,000,000, granted to one independent party. Under the above guarantees, Xingwu and Zhaiyadi are liable to pay the banks and lenders if the banks and lenders are unable to recover the loans from these third parties. At 31 December 2009, no provision for the Group's obligation under the guarantee contracts has been made as the directors consider that it is not probable that the repayment of the loans will be in default.

19. EVENTS AFTER THE REPORTING DATE

- (a) In December 2009, two RMB200,000,000 loan agreements (the "Loans") were entered between Xingwu and China Merchants Bank Co., Ltd. ("CMB") and Zhaiyadi and CMB respectively. Subsequent to the reporting date, RMB400,000,000 had been drawn from CMB. The term of the loans is 2 years and the loans are used as the working capital of certain PRC subsidiaries. The Loans are secured by the guarantees of the Company.
- (b) On 6 February 2010, one of the subsidiaries of the Group entered into a sales and purchase agreement for the purchase of staff quarter which located at No. 6 Building, Baoning District, Liulin Country at RMB101,000,000. Up to the date of these financial statements, RMB45,000,000 was paid by the Group as purchase deposit.
- (c) Subsequent to the reporting date and up to the date of these financial statements, 10,000,000 new shares were issued at exercise price of HK\$1.5 per share upon the exercise of granted share options by option holders as a result of further raised a net proceed of approximately HK\$15,000,000.

- (d) Pursuant to a proposed acquisition of the entire equity interest in Chonghou Energy Resources Limited set out in the Company's announcement dated 22 October 2009, HK\$100,000,000 was paid to a vendor, Asset Rich International Limited, during the year. Subsequent to the reporting date, not all the conditions precedent could be fulfilled, the Group has given notice to the vendor for not proceeding the proposed acquisition and the full deposit of HK\$100,000,000 was refunded on 1 April 2010.

- (e) Pursuant to an agreement entered between Jade Green and Mr. Xing on 13 April 2010, Jade Green had conditionally agreed to make available the loan of HK\$937,367,000 ("New Loan") to Mr. Xing for his settlement of the existing debts of RMB824,883,000 to the Group as of 31 December 2009 ("Loan Agreement"). Pursuant to the Loan Agreement, the New Loan is interest bearing at LIBOR plus 2.5% and shall be repayable in three installments from the 12th month of the first business day after the fulfilment of the last condition precedent of the Loan Agreement ("Drawdown Date") to the 24th month of the Drawdown Date. The Loan Agreement is subject to independent shareholders' approval under the Listing Rules. Details of the transaction are set out in the announcement of the Company dated 13 April 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The global economy went through repaid changes in the year 2009. Affected by the decline in the China export sector, China domestic economic growth has slowed down in the first half of 2009. Nonetheless, since the Chinese Government has implemented a series of economy stimulus package, speeding up the development of infrastructure, vigorously enhancing domestic demand, China economy has picked up the momentum again with an annual Gross Domestic Production (“GDP”) growth rate of 8.6%. Thanks to the rapid growth of the construction and automobile sector, the demand for steel has risen expeditiously and benefited the coking coal industry. On the other hand, China major coal production base, the Shanxi Province, has initiated the consolidation process of small-scale coal mines since April 2009. A lot of small-scale coal mines were shut down which resulted in the shortage of coking coal supply and lead to the coking coal price leaping upward.

BUSINESS REVIEW

Since the Group acquired three premier operating coking coal mines, namely Xingwu Coal Mine, Jinjiazhuang Coal Mine and Zhaiyadi Coal Mine, in the Shanxi Province, Liulin County in July 2008 (the “2008 Acquisition”), the Group becomes one of the largest hard coking coal producer in China. The Group has endeavored to focus in these three premier operating coking coal mines resulting in remarkable operating results. 2009 was the first financial year that reflects a full year of operation from the three coking coal mines while the financial year of 2008 reflected about 5 months operating results of the three coking coal mines. As a result, 2009 revenue and net profits jumped substantially to HK\$4,470 million and HK\$1,442 million. 2009 annual raw coal production has reached approximately 6.2 million tonnes from 2.5 million tonnes (5 months) in 2008, representing a year-on-year increase of 148%; annual clean coal production has reached approximately 1.0 million tonnes in 2009 from 0.3 million tonnes (5 months) in 2008, representing a year-on-year increase of 233%.

In the early of 2009, one of the China largest steel manufacturers, Shougang Holding (Hong Kong) Limited, a wholly-owned subsidiary of Shougang Corporation (“Shougang Group”), has become the largest shareholder of Fushan Energy and has forged a long term strategic alliance, providing a solid foundation for our future development and growth. The Group is actively expanding and deepening our network with various major mainland steel mills. The Shougang Group, Hebei Iron and Steel Group, Inner Mongolia Baotou Steel Union Company Limited and Taiyuan Iron and Steel Group Company Limited have all become our long term strategic partners, ensuring a stable demand for our coking coal production.

Due to the fact that most major mainland steel mills primarily purchase clean coking coal rather than raw coking coal, the Group has been increasing our coal processing capacity vigorously in order to enhance our sales in the steel sector. A new coal preparation plant in Jinjiazhuang Coal Mine has commenced production since last June and another 2 new coal preparation plants will be able to join our production line in the

later of this year or the early of next year, boasting our total coal processing capacity to 11 million tonnes per annum. By then, each of our three operating coking coal mines will have its own independent coal preparation plant, increasing the effectiveness in operation and benefiting from the integrated system and economic of scale.

In addition, the Group completed the acquisition of part of the shareholding of a listed company in Australia, Mount Gibson Iron Limited (“Mount Gibson”), the fourth largest hematite (high quality iron ore) exploration and mining company in Australia, in December 2009. This marked an expansion of the Group’s product offering from coking coal to iron ore and its business in markets other than the PRC, which bring the Group one step closer to the goal of becoming an international diversified metallurgical resources supplier and facilitate further acquisitions of overseas resources projects in the future.

Financial Review

Benefiting from the significant increase in sales volume of raw coking coal from 1.9 million (5 months) in 2008 to 4.7 million (full year) in 2009 and of clean coking coal from 0.3 million (5 months) in 2008 to 1.0 million (full year) in 2009, the Group recorded a turnover of approximately HK\$4,470 million for the year ended 31 December 2009, representing a significant increase of approximately HK\$2,573 million over approximately HK\$1,897 million in 2008 or representing a year-on-year increase of 136%. In addition, the Group recorded a substantial operating profits and net profit of approximately HK\$2,175 million (2008: HK\$1,025 million) and HK\$1,442 million (2008: HK\$707 million) for the year ended 31 December 2009 respectively. For the year ended 31 December 2009, the Group recorded net profit attributable to the owners of the Company (“Owners”) of approximately HK\$1,126 million (2008: HK\$568 million) and basic earnings of HK23.53 cents per share (2008: HK16.86 cents per share). 2009 is the first financial year that reflects a full year of operation results from the three coking coal mines from the 2008 Acquisition while the financial year of 2008 reflected about 5 months operating results of the three coking coal mines.

Average realized selling price (inclusive of VAT) of raw coking coal was increased from RMB579 in January 2009 to RMB771 in December 2009, while the average realized selling price of clean coking coal (inclusive of VAT) was increased from RMB1,176 in January 2009 to RMB1,518 in December 2009. Average realized selling price (inclusive of VAT) of raw coking coal and clean coking coal were RMB644 (1 August-31 December 2008: RMB785) and RMB1,401 (1 August-31 December 2008: RMB1,544) for the year ended 31 December 2009 respectively. Revenue from sales of raw coal, clean coal and coke account for 66%, 29% and 5% (2008: 70%, 26% and 4%) of turnover in 2009.

In 2009, the Group incurred non-cash share-based compensation expense of HK\$110 million from granting of share options and non-cash one-off extraordinary item net transaction loss of HK\$221 million arising from acquisition of available-for-sale financial assets (details of which are set out on below “Material Investments and Acquisitions”) which aggregate significant reduced both 2009 net profit and net profit attributable to the Owners by HK\$331 million.

Cost of Sales

During the year, cost of sales was approximately HK\$1,441 million, representing an increase of approximately HK\$781 million or approximately 118%, as compared with approximately HK\$660 million in 2008. The significant increase was due to the increase in turnover.

Depreciation of property, plant and equipment for the year ended 31 December 2009 was approximately HK\$172 million, representing an increase of approximately HK\$109 million or approximately 173% as compared with approximately HK\$63 million in 2008. The increase was mainly attributable to the significant additions of property, plant and equipment through the 2008 Acquisition amounting to approximately HK\$1,323 million. During the year, additions of property, plant and equipment amounted to approximately HK\$655 million was mainly due to the construction of three coal preparation plants.

Amortisation of mining rights for the year ended 31 December 2009 was approximately HK\$261 million, which was solely attributable to the addition of carrying amount of mining rights of approximately HK\$10,690 million from the 2008 Acquisition.

Gross Profit and Gross Profit Margin

As a result of the reasons above, gross profit for the year ended 31 December 2009 was approximately HK\$3,029 million, representing a significant increase of approximately HK\$1,792 million or approximately 145% as compared with approximately gross profit of HK\$1,237 million in 2008. During the year, gross profit margin achieved at 68% compared with 65% in 2008.

The increase in gross profit margin by 3%, even though the average realized selling prices in 2009 were lower than that in 2008, was due to (i) the result of the effective cost control, (ii) reducing average unit cost as a result of the expansion of production volume of raw coal from approximately from 5.4 million tonnes (full year production volume) in 2008 to 6.2 million tonnes in 2009; and (iii) changes of accounting treatment on development fund for mine transition and environmental recovery guarantee fund amounting to approximately HK\$69 million during the year not taken into account as expenses since 1 January 2009.

Other Operating Income

During the year, other operating income was approximately HK\$45 million that maintained at the similar level of approximately HK\$48 million in 2008.

Selling and Distribution Expenses

During the year, selling and distribution expenses was approximately HK\$231 million which was increased by approximately HK\$171 million from HK\$60 million in 2008 or representing a year-on-year increase of 285%. The increase was mainly as a result of the increase in transportation costs arising from the increase in sales volume of clean coking coal from 0.3 million in 2008 to 1.0 million in 2009 or representing a year-on-year increase of 233%.

General and Administrative Expenses

During the year, administrative expenses were approximately HK\$400 million, representing an increase of approximately HK\$259 million or approximately 184% as compared with approximately HK\$141 million in 2008. The increase was a result of the full year of operating results of the three premier coking coal mines in 2009 and non-cash share-based compensation expense approximately HK\$110 million in relation to the grant of 281,050,000 share options to eligible participants in August 2009.

Other Operating Expenses

During the year, other operating expenses were approximately HK\$269 million, representing an increase of approximately HK\$225 million or approximately 5.1 times as compared with approximately HK\$44 million in 2008. The increase was a result of the full year of operating results of the three premier coking coal mines in 2009, having impairment of trade receivables of HK\$32 million and charitable donation of HK\$125 million made by the Group to the Liulin Provincial Government for the construction of modern schools and provision of educational facilities in 2009.

Finance Costs

During the year, finance costs were approximately HK\$125 million, representing an increase of approximately HK\$34 million or approximately 37% as compared with approximately HK\$91 million in 2008. The increase in finance costs was due to the full year of interest expense from the borrowings of HK\$1,110 million in 2008 which was solely for used to finance part of the consideration for the 2008 Acquisition. During the year, HK\$17 million borrowing costs were capitalized in the construction in progress.

Net Transaction Loss Arising from Acquisition of Available-For-Sale Financial Assets

The Company suffered a one-off non-cash transaction gain of HK\$54 million and a one-off non-cash transaction loss of HK\$275 million arising from the acquisition of Mount Gibson shares under the First Agreement (as defined below under “**Increase in shareholding by Substantial Shareholders**”) and from the acquisition of APAC shares under the Second Agreement (as defined below under “**Increase in shareholding by Substantial Shareholders**”), as a result of having net transaction loss of HK\$221 million. Details of the net transaction loss are set out in the below under “**Material Investments and Acquisitions**”.

Income Tax Expense

During the year, income tax expense was approximately HK\$428 million, of which approximately HK\$146 million representing the provision of withholding tax on the dividend declared from the three coking coal mines in accordance with the tax regulations in the PRC. The three coking coal mines are entitled to 50% relief on the income tax from 2008 to 2010, thus the income tax rate of the three coking coal mines is 12.5% from 2008 to 2010.

Owner's Attributable Profit

By reason of the foregoing, the net profit attributable to the Owners in the year were approximately HK\$1,126 million, representing an increase of approximately HK\$558 million or 98% as compared with approximately HK\$568 million in 2008.

Increase in shareholding by Substantial Shareholders

On 9 February 2009, Mr. Wong Lik Ping (“Mr. Wong”), the shareholder and executive director of the Company, and China Merit Limited, a company wholly-owned by Mr. Wong, entered into the share sale agreement (“Share Sale Agreement”) with Excel Bond Investments Limited (“Excel Bond”), a wholly-owned subsidiary of Shougang Concord International Enterprises Company Limited (“Shougang International”), pursuant to which 12.05% of the Company’s share capital at the completion date of the Share Sale Agreement was sold to Excel Bond.

On 22 September 2009, the Group entered into an agreement (“the First Agreement”) with Sky Choice International Limited (“Sky Choice”), a wholly-owned subsidiary of Shougang International to purchase 154,166,874 shares of Mount Gibson. The consideration was satisfied in full by the allotment and issue of 213,918,497 new shares of the Company to the nominees of Sky Choice. On the same date, the Group entered into another agreement (“the Second Agreement”) with Shougang Holding (Hong Kong) Limited (“Shougang Holding”) to purchase the entire issued share capital of Benefit Rich Limited (“Benefit Rich”). The consideration was also satisfied in full by the allotment and issue of 109,089,993 new shares of the Company to Shougang Holding. On 1 December 2009, being the completion date of the above two transactions, Shougang International together with Shougang Holding indirectly increased in its equity interest in Fushan Energy by approximately 6%.

As at 31 December 2009, Shougang International together with Shougang Holding indirectly held 26.51% equity interest in the Company, is the single largest shareholder of the Company.

Material Investments and Acquisitions

On 22 September 2009 (“Contract Date”), the Group entered into the First Agreement to purchase 154,167,874 shares of Mount Gibson and entered into the Second Agreement to purchase the entire issued share capital of Benefit Rich which sole assets are 956,000,000 shares of APAC Resources Limited (“APAC”), whose shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The contractual consideration for the First Agreement was approximately HK\$1,189 million being the fair value equal to number of shares time average closing price per share of Mount Gibson of A\$1.138 (HK\$6.7745 equivalent) as quoted on the Australian Securities Exchange Limited for the last five consecutive trading days up to and including Contract Date and the contractual consideration for the Second Agreement was approximately HK\$606 million being the fair value equal to number of shares time the average closing price per share of APAC of HK\$0.634 as quoted on the Stock Exchange for the last five

consecutive trading days up to and including Contract Date. The consideration for the First Agreement and the Second Agreement are both satisfied in full by the allotment and issue of 213,918,497 new shares and 109,089,993 new shares (“Consideration Shares”) of the Company respectively at HK\$5.556 being the average closing price per share of the Company as quoted on the Stock Exchange for the last five consecutive trading days up to and including Contract Date. Both agreements are completed on 1 December 2009. As the closing prices of the Company, Mount Gibson and APAC were HK\$7.5, A\$1.6 (HK\$10.77 equivalent) and HK\$0.57 on 1 December 2009 respectively, due to the settlement by Consideration Shares, the final consideration for the First Agreement and the Second Agreement are HK\$1,604 million and HK\$818 million respectively, being the fair values of the Consideration Shares as the date of the issue in accordance with the accounting policy. The difference between the fair values of Consideration Shares and the acquired available-for-sale financial assets is recognized as profit or loss in the consolidated statement of comprehensive income on the date of the completion. Accordingly, the Company suffered a transaction gain of HK\$54 million, but transaction loss of HK\$275 million arising from the acquisition of available-for-sale financial assets under the First and Second Agreement. As a result, HK\$221 million net transaction loss was incurred in 2009.

Mount Gibson, a corporation incorporated under the laws of Australia, the shares of which are listed on The Australian Securities Exchange Limited. The principal business of Mount Gibson is mining of hematite (high quality iron ore) deposits at Koolan Island, Talling Peak and exploration and development of hematite iron ore deposits in Western Australia including Koolan Island, Talling Peak and Extension Hill. Mount Gibson is a pure hematite exploration and mining company which owns iron ore deposits and holds mining rights and is the fourth largest iron ore exploration and mining company in Australia.

Details of the above transactions are set out in the announcement of the Company dated 22 September 2009.

Material Disposals

As the coke plant held by Taiyuan Xishan Risheng Coal and Coking Co., Limited (“Risheng”) located in Gujiao, Shanxi Province is relatively distant from the three coking coal mines acquired in the 2008 Acquisition, the Group entered into a conditional sales and purchase agreement with a shareholder of the then minority shareholder of Risheng to sell, inter alia, its 70% equity interest at a consideration of approximately RMB110 million in 2008. The disposal was completed on 15 January 2009 and since then, Risheng ceased to be a subsidiary of the Company. A gain of approximately HK\$29.59 million was recognised on this disposal during the year. Details of the transaction were set out in the announcement and the circular of the Company dated 23 April 2008 and 29 December 2008 respectively.

On 6 October 2009, the Company and Mr. Wong entered into the disposal agreement (“Disposal Agreement”) whereby the Company agreed to sell and Mr. Wong agreed to purchase the entire issued share capital of Jumbo Hall International Limited (“Jumbo Hall”) and the shareholder’s loan at a total cash consideration of HK\$15.5 million which was determined after arm’s length negotiation between the Company and Mr. Wong by reference to the market value of its sole asset of properties situated at 12th Floor, Kwan Chart Tower, 6 Tonnochy Road, Wanchai, Hong Kong as at 30 September 2009. Upon completion of the Disposal Agreement on 31 December 2009, Jumbo Hall ceased to be a subsidiary of the Company. A gain of approximately HK\$8.67 million was recognised on this disposal during the year. Details of the transaction were set out in the announcement of the Company dated 7 October 2009.

Sales Agreements

Pursuant to the long-term strategic cooperation agreement entered into by the Company and Shougang Corporation in July 2008, Shougang Corporation will purchase premier clean coking coal according to the actual production capacity of the Group. Except for Shougang Group, the Group has also established long-term cooperation relationship with various major steel manufacturers in Mainland China, including Hebei Iron and Steel Group, Inner Mongolia Baotou Steel Union Company Limited and Taiyuan Iron and Steel Group Company Limited.

Safety Production and Environmental Protection

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

Charges on Assets

As at 31 December 2009, save for approximately HK\$106 million bank deposits were used for securing bills facilities of approximately HK\$103 million and the share pledged and undertaking provided by certain subsidiaries of the Group namely Jade Green Investments Limited, Thechoice Finance Limited, Worldman Industrial Limited, Gumpert Industries Limited, Thechoice Finance (HK) Limited, Worldman Industrial (HK) Limited and Gumpert Industries (HK) Limited to secure US\$200 million bank loan granted to the Group, none of the Group’s assets was charged or subject to any encumbrance.

Contingent Liabilities

As at 31 December 2009, save for the guarantees given by a subsidiary in the PRC, namely Shanxi Liulin Xingwu Coal Co., Limited amounting to approximately RMB282 million (HK\$320 million equivalent) with respect to the bank loans to its two long-term independent third customers and the guarantees given by the Company amounting to approximately RMB400 million (HK\$454 million equivalent) with respect to bank facilities granted to certain subsidiaries of the Company, there were no guarantees given to any banks or financial institutions by the Group. As at 31 December 2009, there was no default in the repayment of the respective loans.

Gearing Ratio

As at 31 December 2009, gearing ratio of the Group, computed from the Group's interest bearing liabilities divided by the total equity, was approximately 5%. The borrowings were mainly used to finance term loan which was used to finance part of the payment of the consideration for the 2008 Acquisition as mentioned above.

Exposure to Fluctuations in Exchange Rates

As at 31 December 2009, other than assets and liabilities denominated in Renminbi and Australian Dollar, the Group had no material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

As at 31 December 2009, the Group's current ratio (current assets divided by current liabilities) was approximately 1.59 and the Group's cash and bank deposits amounted to approximately HK\$2,210 million, of which approximately HK\$106 million was deposited mainly to secure bill facilities of approximately HK\$103 million.

Capital Structure

The Group considers total equity, bank loans and other borrowings as capital. As at 31 December 2009, the amount of capital was approximately HK\$18,136 million.

As at 31 December 2009, the issued share capital of the Company was approximately HK\$537 million. The Company issued 83 million shares with par value of HK\$0.1 each at an exercise price of HK\$1.5 per share upon the exercise of the granted options during the year. During the year, the Company also issued 400 million new shares at HK\$4.38 per share for raising of new funds of HK\$1,719 million and 323,008,490 consideration shares for the settlement of the consideration for the acquisition of 154,166,874 shares in Mount Gibson and the acquisition of the entire issued share capital of Benefit Rich. The above issue of shares increased the capital by HK\$4,297 million during the year.

As at 31 December 2009, the total borrowings of HK\$806 million denominated in USD and RMB. The USD borrowing amounted to approximately HK\$751 million is charged interest at LIBOR plus 1.85% per annum and repayable by 13 installments during the period from September 2010 to September 2013 and the RMB borrowings amounted to HK\$55 million are subject to fixed interest rates which are repayable from 1 to 3 years from 31 December 2009.

Employees

The Group had 15 employees in Hong Kong and 6,509 employees in PRC at 31 December 2009 with remuneration package which are subject to be reviewed annually. The Group provides a mandatory provident fund scheme for its employees in Hong Kong and the state-sponsored retirement plan for its employees in PRC.

The Group has also adopted share option scheme since 20 June 2003. During the year, 281,050,000 share options were granted at an exercise price of HK\$6.0 per share. Details of the grant of share options under the share option scheme during the year are set out in the announcement of the Company dated 19 August 2009.

DIVIDEND

The directors recommended a final dividend of HK11 cents per share (2008: Nil) for the financial year 2009. The proposed final dividend together with the interim dividend of HK10 cents per share (2008: Nil) will make a total dividend of HK21 cents per share (2008: Nil) for the year ended 31 December 2009.

The final dividend, subject to shareholders' approval at the Company's annual general meeting to be held on Tuesday, 8 June 2010, will be payable to shareholders whose names appear on the register of members of the Company on Tuesday, 8 June 2010. It is expected that the final dividend will be paid on or about Wednesday, 23 June 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 7 June 2010 to Tuesday, 8 June 2010 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 4 June 2010 for registration.

FUTURE PROSPECTS

Looking ahead in the year 2010, the world economy continues to recover and in addition, China will be able to maintain a relative high growth rate. China domestic industries that are heavily reliant on steel such as construction and automobile will continue to develop, driving the demand of steel and providing a favorable environment for the coking coal industry. On the supply side, management forecasts the China domestic coking coal supply will remain tight. Shanxi provincial government has emphasized that they will continue to support and drive the coal consolidation process, closing down small-scale coal mine to ensure that coal operations are safer and more adaptable to market practice, enhancing Shanxi's coal companies' competitiveness in the sector. The consolidation of the mainland coal sector is a rational commercial and political decision, other provinces will gradually adopt a similar policy to achieve better economic of scale for its domestic coal enterprises. With the supply remain limited, coking coal price will stay strong.

In such a favorable environment, the Group will endeavor to enhance its competitiveness, continue to build up our business relationship with major steel mills in China. Apart from strengthening our relationship with current clients, we will forge new business alliance with other large-scale mainland steel manufacturers and further improve the Group's profitability. The Group has submitted an application for the mining right in a new coal mine area according to the relevant laws and rules, administrative procedures and existing regulations of the PRC. These facilities will greatly enhance our coal reserves and annual production capacity of raw coal. Simultaneously, we will continue to devote resources and seek to ramp up our production rate through organic growth and acquisition, hence, satisfying our enlarged client base. Two new coal preparation plants will be able to commence production in the later of this year or the early of new year improving the Group's coal processing capacity substantially to 11 million tonnes per annum, allowing us to expand our clean coal sales.

Apart from improving our productivity, we will continue to fulfill our corporate social responsibility. Devoting more resources to uplift our safety standard, keep accidental injuries to a bare minimum and promote environmental protection.

A new railway line between Lingxia Province's Yinchuan and Shanxi Province's Taiyuan will be completed in the near future and it will strengthen the group's logistic ability, allowing us to develop a vastly larger and better client network, establishing a concrete foundation for the group's continuous expansion and development.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the year.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange during the financial year ended 31 December 2009. Details of the Company's compliance with the provisions of the Code during the year will be set out in the Corporate Governance Report in the Company's 2009 annual report.

APPRECIATION

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

By order of the Board

Cao Zhong

Vice-chairman and Managing Director

Hong Kong, 15 April 2010

As at the date of this announcement, the Board comprises Mr. Wang Qinghai (Chairman), Mr. Cao Zhong (Vice-chairman and Managing Director), Mr. Wong Lik Ping (Vice-chairman), Mr. So Kwok Hoo (Deputy Managing Director), Mr. Xue Kang (Deputy Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Mr. Chen Zhouping (Non-executive Director), Mr. Leung Shun Sang, Tony (Non-executive Director), Mr. Zhang Yaoping (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).