
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Fushan International Energy Group Limited, you should at once hand this circular, together with the enclosed 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 onward transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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)

CONTINUING CONNECTED TRANSACTIONS

**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 4 to 12 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on page 13 of this circular. A letter from First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advices to the Independent Board Committee and the Independent Shareholders on the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions is set out on pages 14 to 23 of this circular.

A notice convening an EGM to be held at 11:00 a.m. on Friday, 17 December 2010, at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong is set out on pages 33 to 34 of this circular. A form of proxy for the EGM for use by the Independent Shareholders is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the share registrars of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

1 December 2010

CONTENTS

| | <i>Page</i> |
|--|-------------|
| Definitions | 1 |
| Letter from the Board | 4 |
| Letter from the Independent Board Committee | 13 |
| Letter from First Shanghai | 14 |
| Appendix – General Information | 24 |
| Notice of EGM | 33 |

DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

| | |
|--|--|
| “associate(s)” | has the same meaning ascribed to it under the Listing Rules; |
| “Board” | the board of Directors; |
| “Company” | Fushan International Energy Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange; |
| “Continuing Connected Transactions” | the transactions contemplated under the Master Agreement; |
| “Director(s)” | the director(s) of the Company; |
| “EGM” | the extraordinary general meeting of the Company to be held at 11:00 a.m. on Friday, 17 December 2010 at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong for the Independent Shareholders to consider and if thought fit, approve the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions, or any adjournment thereof; |
| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC; |
| “Independent Board Committee” | the independent committee of the Board, comprising independent non-executive Directors, which has been appointed by the Board to advise the Independent Shareholders on the Continuing Connected Transactions; |
| “Independent Financial Adviser” or “First Shanghai” | First Shanghai Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions; |
| “Independent Shareholders” | the Shareholders other than Mr. Xing and his associates; |

DEFINITIONS

| | |
|--------------------------------|--|
| “Latest Practicable Date” | 29 November 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Luensheng” | 山西聯盛能源有限公司(Shanxi Luensheng Energy Limited*), a company established under the laws of the PRC and is owned by the spouse of Mr. Xing and Mr. Xing; |
| “Master Agreement” | the master agreement entered into between the Company and Mr. Xing on 12 November 2010; |
| “Master Construction Contract” | the master construction contract dated 10 September 2009 entered into between the PRC Subsidiaries and Shanxi Panlong pursuant to which Shanxi Panlong agreed to provide construction services to the PRC Subsidiaries; |
| “Mr. Xing” | Mr. Xing Libin, an associate of a substantial shareholder of certain subsidiaries and a director of a subsidiary of the Company; |
| “PRC” | the People’s Republic of China; |
| “PRC Subsidiaries” | 山西柳林金家莊煤業有限公司(Shanxi Liulin Jinjiazhuang Coal Co., Ltd.*), 山西柳林寨崖底煤業有限公司(Shanxi Liulin Zhaiyadi Coal Co., Ltd.*) and Xingwu, companies established in the PRC with limited liabilities; |
| “Revised Supply Contract 1” | the revised supply contract entered into among the PRC Subsidiaries and Mr. Xing and his associates dated 6 October 2009 pursuant to which the parties agreed to revise the cap amounts in respect of the supply of the accessories, small tools and equipment by Mr. Xing and his associates to the PRC Subsidiaries under the Supply Contract 1; |
| “RMB” | Renminbi, the lawful currency of PRC; |
| “Shanxi Panlong” | 山西磐龍建築工程有限公司(Shanxi Panlong Construction Project Co., Ltd.*), a company established under the laws of the PRC and is controlled by Mr. Xing’s brother; |

DEFINITIONS

| | |
|---------------------------|--|
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time; |
| “Shareholders” | holders of the shares of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Supply Contract 1” | the supply contract entered into among the PRC Subsidiaries and Mr. Xing and his associates dated 3 November 2008, pursuant to which the PRC Subsidiaries agreed to purchase coal, accessories and small tools from Mr. Xing and his associates and Mr. Xing and his associates agreed to purchase coal and electricity from the PRC Subsidiaries; |
| “Supply Contract 2” | the supply contract entered into among the PRC Subsidiaries and Mr. Xing and his associates dated 1 June 2009 pursuant to which the PRC Subsidiaries agreed to sell equipment, accessories and small tools to Mr. Xing and his associates; |
| “substantial shareholder” | has the same meaning as given to it under the Listing Rules; |
| “Tenancy Agreement 1” | the tenancy agreement entered into between the PRC Subsidiaries as tenants and Luensheng as landlord dated 2 June 2008 in respect of the lease of the property located at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, the PRC; |
| “Tenancy Agreement 2” | the tenancy agreement entered into between the PRC Subsidiaries as tenants and Luensheng as landlord dated 1 June 2009 in respect of the lease of one floor of office premises situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, the PRC; |
| “VAT” | the value added tax chargeable under the applicable PRC laws; |
| “Xingwu” | 山西柳林興無煤礦有限責任公司(Shanxi Liulin Xingwu Coal Co., Ltd.*), a company established in the PRC with limited liabilities; and |
| “%” | per cent. |

* For identification purpose 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)

(Stock Code: 639)

Directors:

Wang Pingsheng (*Chairman*)
Chen Zhouping (*Vice Chairman and Managing Director*)
Wong Lik Ping (*Vice Chairman*)
So Kwok Hoo (*Deputy Managing Director*)
Chen Zhaoqiang (*Deputy Managing Director*)
Xue Kang (*Deputy Managing Director*)
Liu Qingshan (*Deputy Managing Director*)
Leung Shun Sang, Tony (*Non-executive Director*)
Zhang Yaoping (*Non-executive Director*)
Zhang Wenhui (*Non-executive Director*)
Kee Wah Sze (*Independent Non-executive Director*)
Choi Wai Yin (*Independent Non-executive Director*)
Chan Pat Lam (*Independent Non-executive Director*)

Registered Office:

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

1 December 2010

To the Shareholders

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

On 12 November 2010, the Company entered into the Master Agreement with Mr. Xing in respect of the Continuing Connected Transactions. Mr. Xing is an associate of a substantial shareholder of certain subsidiaries and a director of a subsidiary of the Company. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions for the Company under the Listing Rules.

As the annual cap amounts of the Continuing Connected Transactions under the Master Agreement will exceed the thresholds as provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions will be subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules.

LETTER FROM THE BOARD

Mr. Xing and his associates will abstain from voting for the resolution to be proposed at the EGM to approve the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions.

An Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Master Agreement. First Shanghai has been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions under the Master Agreement.

The purposes of this circular are:

- (i) to provide the Shareholders with details of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions;
- (ii) to set out the opinion of the Independent Financial Adviser in respect of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions;
- (iii) to set out the recommendation of the Independent Board Committee in respect of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions; and
- (iv) to give the Shareholders notice of the EGM to consider and, if thought fit, to approve the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions.

THE MASTER AGREEMENT

Date: 12 November 2010

Parties: The Company
Mr. Xing

Subject: Pursuant to the Master Agreement, the Group will supply products (principally clean coking coal, raw coking coal and other coal products) and side products, raw materials, materials, fuel, energy (principally electricity and water), mechanical equipment, equipment, spare parts, accessories, tools, fixed assets, provision of construction and/or other services; and leasing of properties (the “**Products/Services**”) to Mr. Xing and his associates (the “**Sales**”) and Mr. Xing and his associates will supply the Products/Services to the Group (the “**Purchases**”).

LETTER FROM THE BOARD

Cap amounts: The cap amounts of the Sales and the Purchases for each of the three financial years ending 31 December 2013 will be as follows:

| | 2011 | 2012 | 2013 |
|-------------------------------------|---------------------|---------------------|---------------------|
| | <i>RMB' million</i> | <i>RMB' million</i> | <i>RMB' million</i> |
| | (exclusive of VAT) | (exclusive of VAT) | (exclusive of VAT) |
| Cap amount for the Sales | 1,120 | 1,210 | 1,310 |
| Cap amount for the Purchases | 1,660 | 1,800 | 1,950 |

The respective historical amounts are references in determination of the respective cap amounts, however, they are not critical factors. The cap amounts are mainly determined by reference to the anticipated future supply and demand of the Purchases and the Sales in accordance with the anticipated Group's future production planning, the anticipated increase in the prices of coal products and raw materials and the expansion of the scale of production.

Term: The Master Agreement has a fixed term of three financial years ending on 31 December 2013.

Price: The basis of determining the prices for the Continuing Connected Transactions will be in accordance with: (1) comparable market price; or (2) if no comparable market price can be taken as a reference, a price reasonably agreed between the parties. The price should be no less favourable to/from third parties.

Payment: Payments for the Continuing Connected Transactions shall be on normal commercial terms or in the manner as reasonably requested by the parties.

Condition: The Master Agreement is subject to approval by the Independent Shareholders.

LETTER FROM THE BOARD

BACKGROUND OF AND REASONS FOR ENTERING INTO OF THE MASTER AGREEMENT

The Continuing Connected Transactions will be entered into in the ordinary and usual course of businesses of the Group.

As disclosed in the circular of the Company dated 25 June 2008, the Group agreed to acquire the PRC Subsidiaries (the “**Acquisition**”) from a seller of which Mr. Xing was a controlling shareholder. Mr. Xing also owned other mining companies and coal preparation plants within the Liulin City of Shanxi Province. In view of the tight supply of coking coal in the PRC and the coal mines of Mr. Xing and his associates are some of the nearest coal mines to the coal preparation plants of the Group, the Group has conducted business transactions with Mr. Xing and his associates prior to and after completion of the Acquisition.

The Group had previously entered into of the following agreements, the transactions contemplated under which constitute continuing connected transactions of the Company and have been disclosed and/or approved by the independent shareholders of the Company in compliance with the Listing Rules:

- (a) On 2 June 2008, the PRC Subsidiaries as tenants and Luensheng as landlord entered into the Tenancy Agreement 1 in respect of the lease of the property situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, the PRC. The Tenancy Agreement 1 has a fixed term of three financial years ending on 31 December 2010. The cap and actual amounts for the rental under the Tenancy Agreement 1 for each of the three financial years ending 31 December 2010 are as follows:

| | 2008 | 2009 | 2010 |
|---------------|----------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Cap amount | 1,867 | 1,867 | 2,054 |
| Actual amount | 813 | 1,867 | 1,712* |

- (b) On 3 November 2008, the PRC Subsidiaries and Mr. Xing and his associates entered into the Supply Contract 1 which superseded a supply contract dated 2 June 2008 entered into between the parties. Pursuant to the Supply Contract 1, the PRC Subsidiaries agreed to purchase coal, accessories and small tools from Mr. Xing and his associates and Mr. Xing and his associates agreed to purchase coal and electricity from the PRC Subsidiaries. The Supply Contract 1 has a fixed term of three financial years ending on 31 December 2010. On 6 October 2009, the Revised Supply Contract 1 was entered into between the parties, pursuant to which, the annual cap amounts for the accessories and small tools transactions under the Supply Contract 1 for the two financial years ending 31 December 2010 were revised. The cap and actual amounts of the transactions contemplated under the Supply Contract 1 (as revised by the Revised Supply Contract 1) for each of the three financial years ending 31 December 2010 are as follows:

LETTER FROM THE BOARD

Supply of coal

| Supplier | Purchaser | Cap amount for 2008 RMB'000 | Cap amount for 2009 RMB'000 | Cap amount for 2010 RMB'000 |
|-----------------------------|-----------------------------|--|--|--|
| Mr. Xing and his associates | the PRC Subsidiaries | 47,300 | 988,200 | 1,481,500 |
| the PRC Subsidiaries | Mr. Xing and his associates | 445,000 | 2,381,900 | 2,556,100 |

| Supplier | Purchaser | Actual amount for 2008 RMB'000 | Actual amount for 2009 RMB'000 | Actual amount up to October 2010 RMB'000 |
|-----------------------------|-----------------------------|---|---|---|
| Mr. Xing and his associates | the PRC Subsidiaries | 1,852 | 6,094 | 55,518* |
| the PRC Subsidiaries | Mr. Xing and his associates | 343,559 | 104,902 | 0* (Note 1) |

Supply of electricity

| Supplier | Purchaser | Cap amount for 2008 RMB'000 | Cap amount for 2009 RMB'000 | Cap amount for 2010 RMB'000 |
|-----------------|-----------------------------|--|--|--|
| Xingwu | Mr. Xing and his associates | 1,100 | 6,100 | 6,850 |

| Supplier | Purchaser | Actual amount for 2008 RMB'000 | Actual amount for 2009 RMB'000 | Actual amount up to October 2010 RMB'000 |
|-----------------|-----------------------------|---|---|---|
| Xingwu | Mr. Xing and his associates | 0 (Note 2) | 3,191 | 3,039* |

LETTER FROM THE BOARD

Supply of accessories and small tools

| Supplier | Purchaser | Cap amount for 2008 <i>RMB'000</i> | Cap amount for 2009 <i>RMB'000</i> | Cap amount for 2010 <i>RMB'000</i> |
|-----------------------------|----------------------|--|--|--|
| Mr. Xing and his associates | the PRC Subsidiaries | 7,100 | 118,165 | 120,000 |

| Supplier | Purchaser | Actual amount for 2008 <i>RMB'000</i> | Actual amount for 2009 <i>RMB'000</i> | Actual amount up to October 2010 <i>RMB'000</i> |
|-----------------------------|----------------------|--|--|--|
| Mr. Xing and his associates | the PRC Subsidiaries | 1,605 | 45,414 | 6,258* |

- (c) On 1 June 2009, the PRC Subsidiaries and Mr. Xing and his associates entered into the Supply Contract 2 pursuant to which the PRC Subsidiaries agreed to sell equipment, accessories and small tools to Mr. Xing and his associates. The Supply Contract 2 has a fixed term from 1 June 2009 to 31 December 2011. The cap and actual amounts of the transactions contemplated under the Supply Contract 2 for each of the three financial years ending 31 December 2011 are as follows:

| | 2009 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
|---------------|------------------------|------------------------|------------------------|
| Cap amount | 12,000 | 20,000 | 20,000 |
| Actual amount | 49 | 115* | N/A |

- (d) On 1 June 2009, the PRC Subsidiaries as tenants and Luensheng as landlord entered into the Tenancy Agreement 2 in respect of the lease of one floor of office premises situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, the PRC. The Tenancy Agreement 2 has a fixed term of two financial years ending on 31 December 2010. The cap and actual amounts for the rental (exclusive of electricity, heat, water and other charges) under the Tenancy Agreement 2 for each of the two financial years ending 31 December 2010 are as follows:

| | 2009 <i>RMB'000</i> | 2010 <i>RMB'000</i> |
|---------------|------------------------|------------------------|
| Cap amount | 934 | 1,027 |
| Actual amount | 934 | 856* |

LETTER FROM THE BOARD

- (e) On 10 September 2009, the PRC Subsidiaries and Shanxi Panlong entered into the Master Construction Contract pursuant to which Shanxi Panlong agreed to provide construction service to the PRC Subsidiaries. The Master Construction Contract has a fixed term from 10 September 2009 to 31 December 2011. The cap and actual amounts of the transactions contemplated under the Master Construction Contract for each of the three financial years ending 31 December 2011 are as follows:

| | 2009 | 2010 | 2011 |
|---------------|----------|---------|---------|
| | RMB'000 | RMB'000 | RMB'000 |
| Cap amount | 10,000 | 10,000 | 10,000 |
| Actual amount | 0 | 4,140* | N/A |
| | (Note 3) | | |

* Actual amount for 2010 up to 31 October 2010 is subject to final audit.

Notes:

1. As the Group's sales orders from other customers can match with the Group's actual production volume, no coal was or will be sold to Mr. Xing and his associates for 2010.
2. The Group did not supply electricity to Mr. Xing and his associates during the period from 15 December 2008 (the effective date of the Supply Contract 1) to 31 December 2008.
3. As the construction projects were postponed to 2010, no construction cost incurred for 2009.

The Supply Contract 1 (as revised by the Revised Supply Contract 1), the Tenancy Agreement 1 and the Tenancy Agreement 2 are due to expire on 31 December 2010. It is also expected that due to the increases in the prices of coal products and raw materials and the expansion of the scale of production, the annual caps for 2011 under the Supply Contract 2 and the Master Construction Contract would be exceeded based on the current business projection. The Directors consider that the Tenancy Agreement 1, the Tenancy Agreement 2, the Supply Contract 1 (as revised by the Revised Supply Contract 1), the Supply Contract 2 and the Master Construction Contract are essential to the operation of the Company and are being carried out in the ordinary and usual course of businesses of the Group. In order to enhance the flexibility of the operation of the Group, it is proposed that one Master Agreement be entered to govern all the continuing connected transactions and other continuing connected transactions to be taken place in the three financial years ending 31 December 2011. Upon the Master Agreement becoming effective, the Supply Contract 2 and the Master Construction Contract would be terminated.

GENERAL

The Group is principally engaged in coking coal mining, production and sales of coking coal products (including coking coal, clean coking coal and coke) and side products.

Mr. Xing is an associate of a substantial shareholder of certain subsidiaries and a director of a subsidiary of the Company. Accordingly, the transactions under the Master Agreement between the Group and Mr. Xing and his associates constitute continuing connected transactions for the Company under the Listing Rules.

LETTER FROM THE BOARD

The Sales primarily comprise the sales of (i) clean coal; (ii) raw coal; (iii) accessories and plant and machinery; and (iv) electricity by the Group to Mr. Xing and his associates. On the other hand, the Purchases primarily comprise the purchase or procurement of (i) clean coal for trading; (ii) raw coal and by-product coal for producing clean coal; (iii) accessories and plant machinery; (iv) construction services; and (v) rental services by the Group from Mr. Xing and/or his associates.

As the annual cap amounts of the Continuing Connected Transactions under the Master Agreement will exceed the thresholds as provided in Rule 14A.34 of the Listing Rules, the Continuing Connected Transactions will be subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements pursuant to Rule 14A.35 of the Listing Rules.

The Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Group. The Directors (including the independent non-executive Directors) consider that the terms of the Master Agreement have been negotiated on an arm's length basis and the Continuing Connected Transactions will be conducted on normal commercial terms, between the Group and Mr. Xing and/or his associates. The Directors (including the independent non-executive Directors) are of the view that as far as the Independent Shareholders are concerned, the terms of the Master Agreement are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole.

The Company will therefore seek the approval by the Independent Shareholders of the Master Agreement and the proposed cap amounts in relation to the Continuing Connected Transactions under the Master Agreement. No Director is interested in the Continuing Connected Transactions and would be required to abstain from voting for the resolution proposed at the EGM. Mr. Xing and his associates will abstain from voting for the resolution proposed at the EGM on a vote by way of poll.

EGM

A notice convening the EGM to be held at 11:00 a.m. on Friday, 17 December 2010 at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong is set out on pages 33 to 34 of this circular for the purpose of considering and, if thought fit, passing the resolution as set out therein.

A form of proxy for use by the Shareholders at the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the share registrars of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

Pursuant to the Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure that the chairman of the EGM shall demand voting on the ordinary resolution set out in the notice of EGM be taken by way of poll.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 13 of this circular which contains its recommendation to the Independent Shareholders on the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions. Your attention is also drawn to the letter of advice from First Shanghai which contains, amongst other matters, its advices to the Independent Board Committee and the Independent Shareholders in relation to the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions. The letter from First Shanghai is set out on pages 14 to 23 of this circular.

The Directors consider that the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

Your attention is also drawn to the general information set out in the appendix of this circular.

Yours faithfully,
By Order of the Board
Fushan International Energy Group Limited
Wang Pingsheng
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

1 December 2010

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 1 December 2010 (the “Circular”), in which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings given to them in the section headed “Definitions” of the Circular.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders on whether the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

We wish to draw your attention to the letter of advice from First Shanghai Capital Limited (“**First Shanghai**”), the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions as set out on pages 14 to 23 of the Circular and the letter from the Board set out on pages 4 to 12 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of First Shanghai as stated in its letter of advice, we consider that the terms of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions to be proposed at the EGM.

Yours faithfully,

For and on behalf of

**The Independent Board Committee of
Fushan International Energy Group Limited**

Kee Wah Sze

Choi Wai Yin

Chan Pat Lam

Independent Non-executive Directors

LETTER FROM FIRST SHANGHAI

The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Independent Shareholders on the terms of the Master Agreement and the relevant cap amounts in relation to the Continuing Connected Transactions under the Master Agreement, 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

1 December 2010

*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 on the terms of the Master Agreement and the relevant cap amounts (the “Annual Caps”) in relation to the Continuing Connected Transactions, details of which are set out in the circular of the Company dated 1 December 2010 (the “Circular”) to the Shareholders 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.

On 12 November 2010, the Company entered into the Master Agreement with Mr. Xing in respect of the Continuing Connected Transactions. Mr. Xing is an associate of a substantial shareholder of certain subsidiaries and a director of a subsidiary of the Company. Accordingly, the transactions under the Master Agreement constitute continuing connected transactions for the Company under the Listing Rules.

The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam, has been established to advise the Independent Shareholders on the terms of the Master Agreement and the Annual Caps. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 will continue 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

LETTER FROM FIRST SHANGHAI

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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the terms of the Master Agreement and the Annual Caps, we have taken into account the following principal factors and reasons:

1. Background to and reasons for the entering into of the Master Agreement

The Group is principally engaged in coking coal mining, production and sales of coking coal products (including coking coal, clean coking coal and coke) and side products. As disclosed in the circular of the Company dated 25 June 2008, the Group agreed to acquire the PRC Subsidiaries (the "Acquisition") from a seller which Mr. Xing was a controlling shareholder. Mr. Xing also owned other mining companies and coal preparation plants within the Liulin City of Shanxi Province. In view of the tight supply of coking coal in the PRC and the coal mines of Mr. Xing and his associates are some of the nearest coal mines to the coal preparation plants of the Group, the Group has conducted business transactions with Mr. Xing and his associates prior to and after completion of the Acquisition. Since Mr. Xing and his spouse owned Luensheng, which was a substantial shareholder of certain of the PRC subsidiaries, Mr. Xing became a connected person of the Company upon the completion of the Acquisition in 2008, hence the continuing transactions between the Group and Mr. Xing and his associates constitute continuing connected transactions under the Listing Rules.

In order to enhance the flexibility of the operation of the Group and to govern all the continuing connected transactions to be taken place in the three years ending 31 December 2013, the Company entered into the Master Agreement with Mr. Xing in respect of the Continuing Connected Transactions, which comprised the Sales and the Purchases (as defined in the letter from the Board). Having discussed with the management of the Group, we understand that the Sales primarily comprised the sales of (i) clean coal; (ii) raw coal; (iii) accessories and plant and machinery; and (iv) electricity by the Group to Mr. Xing and his associates. On the other hand, the Purchases primarily comprised the purchase or procurement of (i) clean coal for trading; (ii) raw coal and by-product coal for producing clean coal; (iii) accessories and plant and machinery; (iv) construction services; and (v) rental services by the Group from Mr. Xing and/or his associates.

Having considered that (i) the Group has conducted the Sales and the Purchases after completion of the Acquisition in the ordinary and usual course of business of the Group; (ii) the Purchases will be cost efficient to the Group given the geographical proximity of the coal mines owned by the Group to those owned by Mr. Xing; (iii) Mr. Xing and his associates will be secured as suppliers or customers to the Group; (iv) the Sales are in revenue nature which are beneficial to the Group; and (v) the Master Agreement can enhance the flexibility of the business operation of

LETTER FROM FIRST SHANGHAI

the Group and centralise and govern all the Continuing Connected Transactions to be taken place in the three years ending 31 December 2013, we are of the view that the entering into of the Master Agreement 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.

2. Principal terms of the Master Agreement

As disclosed in the letter from the Board, the Master Agreement has a fixed term of three years ending on 31 December 2013. The basis of determining the prices for the Continuing Connected Transactions will be in accordance with (i) comparable market price; or (ii) if no comparable market price can be taken as a reference, a price reasonably agreed between the parties, where the price should be no less favourable to/from third parties. Payments for the Continuing Connected Transactions will be on normal commercial terms or in the manner as reasonably requested by the parties.

Having considered that a majority of the Continuing Connected Transactions had taken place during the year ended 31 December 2009, we have reviewed the annual report of the Company for the year ended 31 December 2009, which we noted that (i) the independent non-executive Directors confirmed, among others, the continuing connected transactions were entered into the ordinary and usual course of business of the Group and conducted on normal commercial terms, or if there was no available comparison, on terms that were no less favourable than terms available to/from third parties; and (ii) the auditors of the Company has provided a letter to the Board confirming the matters stated in Rule 14A.38 of the Listing Rules in respect of the continuing connected transactions. Moreover, having considered that the pricing terms of the Continuing Connected Transactions will be in accordance with (i) comparable market price; or (ii) if no comparable market price can be taken as a reference, a price reasonably agreed between the parties, where the price should be no less favourable to/from third parties, we are of the view that the terms of the Master Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

3. Annual Caps of the Master Agreement

As mentioned in the letter from the Board, the Annual Caps are determined by reference to the anticipated future supply and demand of the Purchases and the Sales, the anticipated increase in the prices of coal products and raw materials and the expansion of the scale of production. The following is a summary of the Annual Caps for each of the three years ending 31 December 2013:

| | Annual Caps | | |
|-----------|--|-------------|-------------|
| | For the year ending 31 December | | |
| | 2011 | 2012 | 2013 |
| | <i>(in RMB million and exclusive of VAT)</i> | | |
| Sales | 1,120 | 1,210 | 1,310 |
| Purchases | 1,660 | 1,800 | 1,950 |

LETTER FROM FIRST SHANGHAI

We understand from the management of the Group that the determination of the Annual Caps in respect of the Sales have taken into account the expected sales amount of (i) clean coal; (ii) raw coal; (iii) accessories and plant and machinery; and (iv) electricity by the Group to Mr. Xing and his associates, whereas the Annual Caps in respect of the Purchases have taken into account the expected purchase or procurement amount of (i) clean coal for trading; (ii) raw coal and by-product coal for producing clean coal; (iii) accessories and plant and machinery; (iv) construction services; and (v) rental services by the Group from Mr. Xing and/or his associates. During our discussion with the management of the Group, we understood that the Group has made reference to the respective historical transaction quantities and amounts in the course of determining the Annual Caps, however the historical transaction amounts were not the principal determining factor for each of the Annual Caps and therefore we have analyzed the relevant underlying principal assumptions in determining each of the Annual Caps as discussed in detail below when formulating our opinion. We have also noticed that an inflation rate (the "Inflation Rate") has been taken into account for determining the expected transaction amounts for the two years ending 31 December 2013, which we consider to be reasonable given that the Inflation Rate is in line with the annual growth rate of the purchasing price indices for raw materials, fuels and power in the past few years as obtained from the China Statistical Year Book 2009 published by the National Bureau of Statistics of China.

(i) Sales of clean coal

We have discussed with the management of the Group regarding the expected sales amount of clean coal to Mr. Xing and his associates. We noted that the expected sales volume of clean coal has made reference to the expected clean coal production capacity of the Group and the expected volume of clean coal to be sold to Mr. Xing and his associates for the three years ending 31 December 2013. On the other hand, the expected unit prices in relation to the sales of clean coal have made reference to the recent average unit price of the relevant types of clean coal and the Inflation Rate.

After taking into account (i) the sales of clean coal is revenue in nature; (ii) the flexibility provided to the Group to sell clean coal; and (iii) the expected volume of clean coal to be sold to Mr. Xing and his associates does not represent a significant portion of the clean coal production capacity of the Group, we consider that the expected sales volumes of clean coal are reasonable. On the other hand, after taking into account (i) the expected price for the year ending 31 December 2011 is in line with the invoices for recent sale of clean coal made with independent third parties; and (ii) the Inflation Rate is reasonable as discussed above, we consider that the expected unit prices for the three years ending 31 December 2013 are reasonable. Hence, we are of the view that the expected transaction amounts in relation to the sales of clean coal for the three years ending 31 December 2013 are fair and reasonable.

(ii) Sales of raw coal

We have discussed with the management of the Group regarding the expected sales amount of raw coal to Mr. Xing and his associates. We understand that the expected sales volume of raw coal has made reference to the expected annual production capacity of clean coal of Mr. Xing and his associates and hence the expected amount of raw coal required for its production for the three years ending 31 December 2013. On the other hand, the expected unit prices in relation to the sales of raw coal have made reference to the recent average unit price of the relevant types of raw coal and the Inflation Rate.

LETTER FROM FIRST SHANGHAI

After taking into account (i) the expected volume of raw coal to be sold for each of the three years ending 31 December 2013 are based on the raw coal volume requirement to meet the expected maximum clean coal production capacity of Mr. Xing and his associates; (ii) sales of raw coal is revenue in nature to the Group; and (iii) the flexibility provided to the Group to sell its raw coal, we consider that it is reasonable to estimate the transaction volumes based on the maximum capacity of Mr. Xing and his associates. On the other hand, after taking into account (i) the expected price for the year ending 31 December 2011 is in line with the invoices for recent sales of raw coal made with independent third parties; and (ii) the Inflation Rate is reasonable as discussed above, we consider that the expected unit prices for the three years ending 31 December 2013 are reasonable. Hence, we are of the view that the expected transaction amounts in relation to the sales of raw coal for the three years ending 31 December 2013 are fair and reasonable.

(iii) Sales of accessories and plant and machinery

We have discussed with the management of the Group regarding the expected sales amount of accessories and plant and machinery to Mr. Xing and his associates. As advised by the management of the Group, the accessories are for the repair and maintenance of mining structures and equipment, including but not limited to, cable, detonator, explosive, diamond mesh, screw, steel wires, bolt, stock plate and steel strip, and we have been advised by the management of the Group that the sale of accessories allows the Group to (i) make good use of excess accessories not yet in use by the Group; (ii) generate revenue; and (iii) establish mutual supportive relationships with coal mines of Mr. Xing and his associates which are located close to the Group. We noted that the expected sales volume of accessories and plant and machinery has made reference to (i) the expected expansion of the production capacity of the coal mines of Mr. Xing and his associates; (ii) the expected sales amount of old-fashioned mining machinery and equipment of the Group to Mr. Xing and his associates; and (iii) the Inflation Rate.

We have been advised by the management of the Company (i) the expected expansion of the production capacity of the coal mines of Mr. Xing and his associates; and (ii) the coal mines of the Group are more modernized than those of Mr. Xing and his associates, where the old-fashioned mining machinery and equipment of the Group can be sold to Mr. Xing and his associates for their production uses. As such, after taking into account (i) the expected expansion of the production capacity of the coal mines of Mr. Xing and his associates; (ii) the expected sales amount of mining machinery and equipment to Mr. Xing and his associates represents only a small portion of the net carrying amount of mining machinery and equipment of the Group as at 31 December 2009; (iii) the sales of accessories and plant and machinery are revenue in nature to the Group; (iv) the flexibility provided to the Group to sell accessories and plant and machinery; and (v) the Inflation Rate is reasonable as discussed above, we are of the view that the expected transaction amounts in relation to the sales of accessories and plant and machinery for the three years ending 31 December 2013 are fair and reasonable.

LETTER FROM FIRST SHANGHAI

(iv) Sales of electricity

We have discussed with the management of the Group regarding the expected sales amount of electricity to Mr. Xing and his associates by Xingwu. We noted that the expected sales volume of electricity has made reference to the electricity generating capacity of Xingwu. On the other hand, the expected unit prices in relation to the sales of electricity have made reference to the recent unit price of electricity and the Inflation Rate.

We have been advised by the management of the Group that the power grid linked Xingwu and the coal mines of Mr. Xing and his associates has already been set up and electricity can be transmitted from Xingwu to Mr. Xing and his associates conveniently. As such, after taking into account (i) the sales of electricity is revenue in nature; (ii) the expected sales volume of electricity represents the majority portion of the electricity generating capacity of Xingwu, which can provide flexibility for the Group to use or sell the spare self-generated electricity conveniently, we consider that the expected sales volumes of electricity are reasonable. On the other hand, after taking into account (i) the expected price for the year ending 31 December 2011 is in line with the invoices for recent sales of electricity made with independent third parties; and (ii) the Inflation Rate is reasonable as discussed above, we consider that the expected unit prices for the three years ending 31 December 2013 are reasonable. Hence, we are of the view that the expected transaction amounts in relation to the sales of electricity for the three years ending 31 December 2013 are fair and reasonable.

(v) Purchase of clean coal for trading

We have discussed with the management of the Group regarding the expected purchase amount of clean coal from Mr. Xing and his associates. We understand that the clean coal will be primarily for trading purposes and the expected purchase volume of clean coal has made reference to the expected annual clean coal production capacity of the coal companies of Mr. Xing and his associates for the three years ending 31 December 2013. On the other hand, the expected unit prices in relation to the purchase of clean coal have made reference to the recent average unit price of the relevant types of clean coal and the Inflation Rate.

After taking into account (i) the proximity of the coal mine of Mr. Xing and his associates to those of the Group; (ii) the expected purchase amount of clean coal from Mr. Xing and his associates is based on the expected maximum clean coal production capacity of the coal mines of Mr. Xing and his associates; (iii) the purchase of clean coal can facilitate and provide flexibility to the clean coal trading business of the Group, we consider that it is reasonable to estimate the transaction volumes based on the maximum clean coal production capacity of the coal mines of Mr. Xing and his associates. On the other hand, after taking into account (i) the expected price for the year ending 31 December 2011 is in line with the invoices for recent purchases of clean coal made with independent third parties; and (ii) the Inflation Rate is reasonable as discussed above, we consider that the expected unit prices for the three years ending 31 December 2013 are reasonable. Hence, we are of the view that the expected transaction amounts in relation to the purchase of clean coal for the three years ending 31 December 2013 are fair and reasonable.

LETTER FROM FIRST SHANGHAI

(vi) Purchase of raw coal and by-product coal for producing clean coal

We have discussed with the management of the Group regarding the expected purchase amount of raw coal from Mr. Xing and his associates. We understand that the raw coal will be primarily for production of clean coal and the expected purchase volume of raw coal has made reference to the expected annual clean coal production capacity of the Group and the respective demand of raw coal for the three years ending 31 December 2013. On the other hand, the expected unit prices in relation to the purchase of raw coal have made reference to the recent average unit price of the relevant types of raw coal and the Inflation Rate.

We understand from the management of the Group that the Group does not wish to solely rely on the supply of raw coal from Mr. Xing and his associates. After taking into account (i) the proximity of the coal mine of Mr. Xing and his associates to those of the Group; (ii) the expected purchase volume of raw coal from Mr. Xing and his associates represents only a small portion of the expected raw coal demand, which is in line with the strategy of the management of the Group to not solely rely on the supply of raw coal from Mr. Xing and his associates; and (iii) the purchase of raw coal can facilitate and provide flexibility to the clean coal production business of the Group, we consider the estimated transaction volumes are reasonable. On the other hand, after taking into account (i) the expected price for the year ending 31 December 2011 is in line with the invoices for recent purchases of raw coal made with independent third parties; and (ii) the Inflation Rate is reasonable as discussed above, we consider that the expected unit prices for the three years ending 31 December 2013 are reasonable. Hence, we are of the view that the expected transaction amounts in relation to the purchase of raw coal and by-product coal for the three years ending 31 December 2013 are fair and reasonable.

(vii) Purchase of accessories and plant and machinery

We have discussed with the management of the Group regarding the expected purchase amount of accessories and plant and machinery from Mr. Xing and his associates. We understand that the expected purchase amount of accessories and plant and machinery has made reference to the relevant historical transaction amount for the year ended 31 December 2009 and the Inflation Rate.

We have reviewed (i) the historical transaction amount in relation to the purchase of accessories and plant and machinery from Mr. Xing and his associates for the year ended 31 December 2009, which we noted to be close to the expected transaction amount for the year ending 31 December 2011; and (ii) the Inflation Rate is reasonable as discussed above, we consider that the expected transaction amounts in relation to the purchase of accessories and plant and machinery for the three years ending 31 December 2013 are fair and reasonable.

LETTER FROM FIRST SHANGHAI

(viii) Procurement of construction services

We have discussed with the management of the Group in respect of the expected procurement amount of construction services, which is expected to be primarily provided by Shanxi Panlong. As disclosed in the announcement of the Company dated 10 September 2009, Shanxi Panlong is a construction contractor principally engaged in the provision of construction services in Shanxi, the PRC and is controlled by Mr. Xing's brother, and we have been advised that Shanxi Panlong has been providing and is expected to continue to provide construction services to the coal mines of the Group in Shanxi, the PRC given (i) the expertise of Shanxi Panlong; (ii) the proximity of Shanxi Panlong; and (iii) the established business relationship with Shanxi Panlong. We understand that the expected construction amount for the three years ending 31 December 2013 are primarily for the expansion and maintenance of infrastructure for the coal mines of the Group and the investment amount for a potential new mine. The Inflation Rate has also been taken into account in determining the expected construction amount for the two years ending 31 December 2013.

After taking into account (i) the breakdown of infrastructure expansion and maintenance of the coal mines of the Group for the three years ending 31 December 2013; (ii) the schedule of expected capital expenditure required for the development of the potential new mine; (iii) the expected amount of construction services to be procured from Mr. Xing and/or his associates for the development of the potential new mine represents only a small portion of the total expected capital expenditure requirement for the development of the potential new mine; and (iv) the Inflation Rate is reasonable as discussed above, we consider that the expected transaction amounts in relation to the procurement of construction services for the three years ending 31 December 2013 are fair and reasonable.

(ix) Procurement of rental services

We have discussed with the management of the Group regarding the expected procurement amount of rental services from Mr. Xing and his associates. We understand that the expected rental services are primarily for office spaces and the expected rental amount has made reference to a tenancy contract entered into with Luensheng and the Inflation Rate.

After taking into account (i) the expected rental amount for the year ending 31 December 2011 is based on the contractual annual rental fee for the year ending 31 December 2010 pursuant to the tenancy contract which governs the rental services of Luensheng until 31 December 2010; and (ii) the Inflation Rate is reasonable as discussed above, we therefore consider that the expected transaction amounts in relation to the procurement of rental services for the three years ending 31 December 2013 are fair and reasonable.

Having considered the above factors, in particular, (i) the flexibility provided to the business operation of the Group by the Annual Caps; and (ii) the terms of the Master Agreement are fair and reasonable as discussed above, we are of the view that the Annual Caps have been reasonably determined and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM FIRST SHANGHAI

4. Reporting requirements and conditions of the Continuing Connected Transactions

In compliance with the annual review requirements under Chapter 14A of the Listing Rules, the Company will comply with the following during the term of the Master Agreement:

- (i) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the Company's annual report and accounts that the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Company; (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 Master 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 Company 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 annual report of the Company) confirming that the Continuing Connected Transactions (a) have received the approval of the Board; (b) are in accordance with the pricing policies of the Company if the Continuing Connected Transactions involve provision of goods or services by the Company; (c) have been entered into in accordance with the relevant agreement governing the transactions; and (d) have not exceeded the respective Annual Caps;
- (iii) the Company will allow, and will procure that the counterparty to the Continuing Connected Transactions will provide the auditors of the Company with sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of reporting on the Continuing Connected Transactions. The Board must state in the annual report whether its auditors have confirmed the matters stated in paragraph (ii) above; and
- (iv) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (i) and/or (ii) above 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 Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Caps 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.

LETTER FROM FIRST SHANGHAI

RECOMMENDATION

Having taken into account the above principal factors, we consider that the Continuing Connected Transactions, being made in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the terms of the Master Agreement and the bases of the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves advise, the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

Yours faithfully,

For and on behalf of

First Shanghai Capital Limited

Helen Zee

Fanny Lee

Managing Director

Deputy Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and Chief Executive

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) 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 which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company, 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:

(i) Long positions in the shares and underlying shares of the Company

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares in the Company | | | Total interests as to % of the issued share capital of the Company as at the Latest Practicable Date |
|-------------------------------|---|---|--------------------------------|-----------------|--|
| | | Interests in shares | Interests in underlying shares | Total interests | |
| Chen Zhouping | Beneficial owner | – | 6,000,000* | 6,000,000 | 0.11% |
| Wong Lik Ping (“Mr. Wong”) | Beneficial owner, interests of controlled corporation | 591,571,900 [#] | 4,500,000* | 596,071,900 | 11.07% |
| So Kwok Hoo | Beneficial owner | 4,000,000 | 3,500,000* | 7,500,000 | 0.13% |
| Chen Zhaoqiang | Beneficial owner | 280,000 | 8,000,000* | 8,280,000 | 0.15% |

| Name of Director | Capacity in which interests are held | Number of shares/underlying shares in the Company | | | Total interests | Total interests as to % of the issued share capital of the Company as at the Latest Practicable Date |
|-----------------------|--------------------------------------|---|--------------------------------|-----------|-----------------|--|
| | | Interests in shares | Interests in underlying shares | | | |
| Xue Kang | Beneficial owner | 6,000,000 | 3,000,000* | 9,000,000 | 0.16% | |
| Liu Qingshan | Beneficial owner | – | 6,000,000* | 6,000,000 | 0.11% | |
| Leung Shun Sang, Tony | Beneficial owner | – | 6,000,000* | 6,000,000 | 0.11% | |
| Zhang Yaoping | Beneficial owner | – | 4,500,000* | 4,500,000 | 0.08% | |
| Kee Wah Sze | Beneficial owner | 700,000 | 3,200,000* | 3,900,000 | 0.07% | |
| Choi Wai Yin | Beneficial owner | – | 3,500,000^ | 3,500,000 | 0.06% | |
| Chan Pat Lam | Beneficial owner | 350,000 | 3,200,000* | 3,550,000 | 0.06% | |

* The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 20 June 2003 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.10 each in the share capital of the Company are issuable.

Mr. Wong indicated in his disclosure form dated 17 September 2010 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 14 September 2010, his interests included 396,600,000 shares of the Company held by China Merit Limited ("China Merit") which was wholly-owned by Mr. Wong. The interest held by China Merit was disclosed under "(b) Substantial Shareholders" of this section.

^ The relevant interest included 3,200,000 underlying shares attached to the share options granted by the Company pursuant to the Scheme and 300,000 underlying shares attached to cash settled futures which will expire on 30 November 2010.

(ii) Short positions in the shares of the Company

| Name of Director | Capacity in which interests are held | Number of shares | Interests as to % of the issued share capital of the Company as at the Latest Practicable Date |
|------------------|--------------------------------------|--------------------------|--|
| Mr. Wong | Interests of controlled corporation | 189,025,000 [#] | 3.51% |

[#] Mr. Wong indicated in his disclosure form dated 17 September 2010 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 14 September 2010, the interest was held by China Merit which was wholly-owned by Mr. Wong. The interest held by China Merit was disclosed under “(b) Substantial Shareholders” of this section.

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, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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 which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company, 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:

(i) Long positions in the shares of the Company

| Name of shareholder | Capacity in which interests are held | Number of shares | Interests as to % of the issued share capital of the Company as at the Latest Practicable Date | Note(s) |
|--|--|------------------|--|---------|
| Shougang Holding (Hong Kong) Limited (“ Shougang Holding ”) | Interests of controlled corporations | 1,461,446,490 | 27.16% | 1 |
| Shougang Concord International Enterprises Company Limited (“ Shougang International ”) | Beneficial owner, Interests of controlled corporations | 1,314,872,497 | 24.43% | 1 |
| Fine Power Group Limited (“ Fine Power ”) | Beneficial owner | 663,918,497 | 12.33% | 1 |
| Mr. Xing | Beneficial owner, Interests of controlled corporation | 422,772,081 | 7.85% | 2 |
| Firstwealth Holdings Limited (“ Firstwealth ”) | Beneficial owner | 418,272,081 | 7.77% | 2 |
| China Merit | Beneficial owner | 396,600,000 | 7.37% | 3 |

(ii) *Short positions in the shares of the Company*

| Name of shareholder | Capacity in which interests are held | Number of shares | Interests as to % of the issued share capital of the Company as at the Latest Practicable Date | Note(s) |
|---------------------|--------------------------------------|------------------|--|---------|
| Mr. Xing | Interests of controlled corporation | 400,000,000 | 7.43% | 2 |
| Firstwealth | Beneficial owner | 400,000,000 | 7.43% | 2 |
| China Merit | Beneficial owner | 189,025,000 | 3.51% | 3 |

Notes:

- Shougang Holding indicated in its disclosure form dated 13 July 2010 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 12 July 2010, its interests included the interests held by Shougang International, a company which was held as to 41.9% by Shougang Holding, and Fine Power, a company which is a wholly-owned subsidiary of Shougang International.

Shougang International indicated in its disclosure form dated 4 January 2010 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 30 December 2009, its interests included the interests held by Fine Power.
- Mr. Xing indicated in his disclosure form dated 13 August 2010 (being the latest disclosure form filed up to the Latest Practicable Date) that as at 10 August 2010, his interests included the interests held by Firstwealth, a company which was wholly-owned by Mr. Xing.
- China Merit was wholly owned by Mr. Wong, a director of the Company, and its interest was disclosed as the interest of Mr. Wong under “(a) Directors and Chief Executive” of this section.

As at the Latest Practicable Date, so far as is known to the Directors, the following persons and companies (other than the Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

| Name of shareholder | Name of company | Number of shares held (% of attributable interest) |
|--|---|---|
| Luensheng | Liulin Luenshan Coking Co., Ltd.* | RMB42,000,000 (35% of the equity interest) |
| Luensheng | Xingwu | <i>Note</i> (12.25% of the equity interest) |
| Luensheng | Shanxi Liulin Jinjiazhuang Coal Co., Ltd.* (“ Jinjiazhuang ”) | RMB130,900,000 (35% of the equity interest) |
| Xiaoyishi Yao Zin Coal and Coking Ltd* | Shanxi Yao Zin Coal and Coking Ltd* | RMB92,800,000 (29% of the equity interest) |

Note: Xingwu was held as to 35% by Jinjiazhuang. As Jinjiazhuang was held as to 35% by Luensheng, Xingwu was deemed to be held as to 12.25% by Luensheng.

* For identification purpose only

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 10% 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) Particulars of Directors’ service contracts

As at the Latest Practicable Date, there is no existing or proposed service contract between any of 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) As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or were proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries;
- (ii) none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group; and
- (iii) Save as disclosed in this circular, none of the Directors or proposed Director was a director or employee of a company which has an interest in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(e) Interests in other competing business

As at the Latest Practicable Date, the interests of the Directors in the businesses (other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which were considered to compete or were likely to compete, either directly or indirectly, with the businesses of the Group were as follows:

| Name of Director | Name of entity whose businesses were considered to compete or likely to compete with the businesses of the Group | Description of businesses of the entity which were considered to compete or likely to compete with the businesses of the Group | Nature of interest of the Director in the entity |
|------------------|--|--|--|
| Mr. Wong | King Steel Limited [#] | Production and sales of coal products | Shareholder |

[#] *Such business may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.*

3. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is 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 has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

The following is the qualification of the expert who has given its opinions or advices which are contained in this circular:

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

As at the Latest Practicable Date, First Shanghai 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 2009, 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

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest audited financial statements of the Company were made up.

6. GENERAL

- (a) 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 Company 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.
- (b) The registered office of the Company is 6th Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The share registrars of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) 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 EGM:

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 13 of this circular;
- (b) the letter from First Shanghai to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 14 to 23 of this circular;
- (c) the written consent from First Shanghai referred to in the paragraph headed "Expert's Qualification and Consent" in this Appendix;
- (d) the Master Agreement;
- (e) the Tenancy Agreement 1 entered on 2 June 2008 between the PRC Subsidiaries as tenants and Luensheng as landlord in respect of the lease of the property situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, the PRC;
- (f) the Supply Contract 1 dated 3 November 2008 between the PRC Subsidiaries and Mr. Xing and his associates in relation to the purchase of coal, accessories and small tools by the PRC Subsidiaries from Mr. Xing and his associates and the purchase of coal and electricity by Mr. Xing and his associates from the PRC Subsidiaries;
- (g) the Supply Contract 2 dated 1 June 2009 between the PRC Subsidiaries and Mr. Xing and his associates pursuant to which the PRC Subsidiaries agreed to sell equipment, accessories and small tools to Mr. Xing and his associates;
- (h) the Tenancy Agreement 2 dated 1 June 2009 between the PRC Subsidiaries and Luensheng in respect of the lease of one floor of office premises situated at Luensheng Office Tower, No. 38 Qing He West Road, Liulin County, Shanxi Province, the PRC;
- (i) the Master Construction Contract dated 10 September 2009 between the PRC Subsidiaries and Shanxi Panlong pursuant to which Shanxi Panlong agreed to provide construction service to the PRC Subsidiaries;
- (j) the Revised Supply Contract 1 dated 6 October 2009 between the PRC Subsidiaries and Mr. Xing and his associates pursuant to which the parties agreed to revise the cap amounts in respect of the supply of the accessories, small tools and equipment by Mr. Xing and his associates to the PRC Subsidiaries under the Supply Contract 1; 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)

(Stock Code: 639)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“the **EGM**”) of Fushan International Energy Group Limited (the “**Company**”) will be held at 11:00 a.m. on Friday, 17 December 2010 at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the master agreement dated 12 November 2010 (the “**Master Agreement**”) entered into between Mr. Xing and the Company, a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, pursuant to which, the Company and its subsidiaries (the “**Group**”) will supply products (including but not limited to clean coking coal, raw coking coal and other coal products) and side products, raw materials, materials, fuel, energy (including but not limited to electricity and water), mechanical equipment, equipment, spare parts, accessories, tools, fixed assets, provision of construction and/or other services; and leasing of properties (the “**Products/Services**”) to Mr. Xing and his associates (the “**Sales**”) and Mr. Xing and his associates will supply the Products/Services to the Group (the “**Purchases**”) (the Sales and the Purchases collectively, the “**Transactions**”), be and is hereby approved, confirmed and ratified;
- (b) the cap amounts in respect of the Purchases and the Sales as set out in the circular of the Company dated 1 December 2010 for each of the three financial years ending 31 December 2013 be and are hereby 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, 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/her/them to be incidental to, ancillary to or in connection with the matters contemplated in the Master Agreement and to give effect to the Transactions.”

By order of the Board
Fushan International Energy Group Limited
Wang Pingsheng
Chairman

Hong Kong, 1 December 2010

NOTICE OF EGM

Registered office:

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

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the share registrars of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
4. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
5. 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 share 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 of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.