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FUSHAN

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ENERGY

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Mining equipment, safety measures and supervision

153 workers were trapped at the Wangjialing Coal Mine in Shanxi after a flood occurred on 28 March 2010. Although 115 workers were rescued, 38 were killed in the accident. Just three days afterwards, another accident occurred in Yichuan county, Henan, in which a blast from gas (methane) leakage killed at least 35 miners, with 6 missing. The explosion also claimed 6 casualties on the ground. In Mainland China, there were 7 severe coal mine accidents in March alone. In addition to the two cases mentioned, the others included one in Xinjiang, one in Hebei, two in Henan and one in Inner Mongolia.

China is the largest coal producer in the world. However, it sees a frequent occurrence of coal mine accidents. In order to rectify the situation and promote safer production, the government has been stepping up efforts to consolidate local coal resources and coal mine enterprises, aiming at retaining bigger mines and centralizing their management. Owners of mines which fail to meet relevant safety requirements will be harshly punished and the mines may be forced to close. Mine operators have to put in additional investment to improve their safety standards. The State Council issued the "National emergency plan for production accidents" in 2006, calling for local governments to report major accidents at once. Moreover, provincial authorities are required to coordinate rescue and relief efforts. In 2007, the central government ordered the closure of mines with capacities less than 30,000 tonnes. Meanwhile, the government is taking a more active role in the merger and acquisition of private mines and is introducing advanced facilities to improve mine safety. At the same time, market players are appealing to workers for their involvement in safety standards and supervision.



To avoid similar accidents, Fushan Energy sticks to the principle of safe production. A supervisory mechanism has been developed from bottom to top and from inside to outside. Investment has been made in automation and dangerous mining processes dropped, thereby improving the safety of miners.

The bottom to top supervisory mechanism refers to raising miners' awareness of work safety. They are required to complete accredited courses to understand how to work safely in the poor working conditions of mines. The inside to outside supervisory mechanism refers to safe production management initiated by the company itself. It establishes a complete safety management mechanism and deploys a team to ensure its execution and compliance with government safety requirements. In order to raise the awareness of work safety and enhance rescue work, each mine carries out an accident drill every year to see if its rescue measures work.

Fushan Energy has employed advance mining technology and modern infrastructure to ensure a safe working environment

Gas leakage is a major cause of accidents in coal mines. Therefore, monitoring and controlling methane levels plays an important role in ensuring production safety.

1. Methane gas detectors. They are hung at the top of mine shafts. The readings are sent to a monitoring system so that staff on the ground will be kept informed of methane levels in the mines.
2. Optical gas flow meters / portable gas flow meters. Gas inspectors carry optical gas flow meters on their backs. From the readings, they can determine methane levels at every place in mine. Every worker also brings a portable gas flow meter when going in the mine. If the methane level is 1% above the critical level, a siren will sound.
3. Mining safety lamp. Every safety helmet is equipped with a lamp. When the methane level is 1% above the critical level, the lamp will start blinking.

During the mining process, a large volume of coal dust is produced. Prolonged exposure to respirable dust is detrimental to workers' health. So Fushan Energy takes various measures to monitor and control it.

1. Dust suppression machines on roadheaders. A dust suppression machine is put on every roadheader. When the mine entry process starts, the coal dust created will be extracted through negative pressure ventilation.
2. Explosion-suppression water bag. It is made of fire resistant and anti-static materials and installed in mines to prevent the spread of methane and coal dust.
3. A comprehensive high pressure spray system. It is widely used in the company's mines, which runs automatically to suppress dust.
4. Coal seam water infusion. Infusion utilizes drilled holes to allow a flow of water throughout the coal seam.
5. Wet drilling. Water is passed through the drive shaft and into the core of the drill bit.
6. Bubble mud is used to fill holes to prevent coal dust or methane explosions.
7. Multiple high pressure spraying systems are used for coal dust suppression. Systems installed in the company's mines include:
 - (a) Mining and digging machine sprays
 - (b) Hydraulic pressure rack sprays
 - (c) Scrubbers and transport point sprays

In addition to the aforementioned equipment, safety measures and supervision, Fushan Energy also refers to overseas examples to improve its safety supervisory regime.





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	2009	2009 1Q	2010 1Q	YoY Change (%)
Raw coal production	6.2 million tons	1.51 million tons	1.58 million tons	+ 4.64%
Raw coal sales volume	4.75 million tons	1.3 million tons	1.07 million tons	- 17.69%
Raw coal price (incl: VAT)	RMB 644/ton	RMB 607/ton	RMB 782/ton	+ 28.83%
Clean coal production	1 million tons	0.19 million tons	0.30 million tons	+ 57.89%
Clean coal sales volume	1 million tons	0.19 million tons	0.32 million tons	+ 68.42%
Clean coal price (incl: VAT)	RMB 1,401/ton	RMB 1,285/ton	RMB 1,657/ton	+ 28.95%

ASP of raw coking coal in 1Q



Fushan Energy Financial Highlights

(HK\$ in million)	2009	2008	YoY Change (%)
Revenue	4,470	1,897	136
Gross profit	3,029	1,237	145
EBITA	2,609	1,186	120
Annual net profit	1,442	707	104
Basic earnings per share (HK cents)	23.53	16.86	40

Corporate News

The Group has vigorously enhanced its production capacity and operating efficiency in order to create better returns to shareholders. In January this year, it entered into a letter of intend for the proposed acquisition of certain operating coal mines in Shanxi. These mines are located in the vicinity of the Group's existing three coking coal mines, with an aggregate coal reserves of not less than 442 million tonnes and an aggregate approved annual production volume of not less than 6 million tonnes. It is conducting due diligence and the transaction is expected to be completed this year. The consideration for the proposed acquisition will be payable by a combination of shares and cash. The funding of the cash component for the proposed acquisition will mainly be from internal sources plus borrowings.

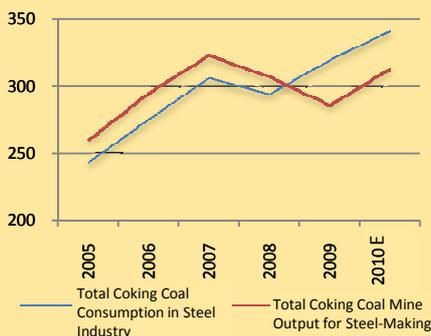
Coking coal and iron ore sectors are promising

According to the MIIT, crude steel production in the 1Q of this year increased by 24.5% over 1Q 2009 to 158 million tonnes. According to estimate of the World Steel Association (WSA), the global steel demand in 2010 will edge up 11% over 2009.

Underpinned by robust demand for steel and iron, prices of coking coal and iron ore saw a significant increase in the 1Q as they are major raw materials.

International coking coal prices have skyrocketed recently, with a number of Australian exporters raising prices. Australia is the world's largest coking coal exporting country.

BHP Billiton signed agreements with Japanese steel manufacturers in March 2010 to supply coking coal at a price of USD\$220 / tonne, a 55% increase over 2009. In addition, it abandoned the long-practised annual benchmark price mechanism and replaced it with quarterly pricing, reflecting the fact that exporters foresaw ample room for price hikes in the international market. The market generally believes that Chinese steel enterprises will import coking coal at prices comparable to their Japanese peers.



Although imports make up less than 10% of total consumption of coking coal in China, domestic supply of premier coking coal is very limited. A structural shortage problem has existed for a long time and is set to put upward pressure on prices.



The State Council issued a circular in April demanding the domestic coal sector to close some 8,000 small mines which are either unsafe for production, not suited to government policies, or wasteful of resources and detrimental to the environment. Shanxi and Henan, two major coal producing provinces, have strengthened efforts in consolidating local mines and more coal producing provinces are expected to join them in the future. As the majority of coking coal supply comes from small mines, the closure of more of them will further aggravate the shortage problem.

Meanwhile, iron ore prices have experienced a dramatic increase in recent months. The world's largest iron-ore producer Vale struck deals with various Japanese steel enterprises. It will provide iron ore at prices of US\$100 – US\$110 / tonne for 2Q this year, almost double the price of previous contracts. At the same time, the other two giants Rio Tinto and BHP Billiton substantially raised their prices on renewed iron ore supply contracts.

However, what is more important is that the three biggest iron ore producers in the world chose to set the iron ore price on a quarterly basis instead of annually which was the long-established practice in the past. The change implies that the iron ore contract prices will close the gap with the iron ore spot price.

In conclusion, as the steel and iron industries became buoyant, metallurgical resources will stay at a high level this year.