Executive Directors' Statement

BUSINESS REVIEW

We have continued to invest and make significant progress in the field of energy sector in 2005. Our results in coal trades recorded approximately HK$10 million, increased by 39% as compared with the previous year. In August, we successfully increased our equity interests in a joint-venture company, namely Shanxi Yao Zin Coal and Coking Limited ("Shanxi Yao Zin"), which is also engaged in the businesses of sales and production of coal products from 38% to 51%. Since Shanxi Yao Zin became the subsidiary of the Group, we have undoubtedly increased both of our presence and strengthening our competitiveness in the energy sector in the long run. As the Group was in the peak level of expenditure on the developments of the two plants, it was inevitable that, a net consolidated loss attributable to equity holders of the Company of approximately HK$14 million was recorded in year 2005.

Last year, demand of energy and resources remained as a main issue as they have a significant impact on the global economic growth especially the energy price hikes. China's fast growing share of world manufacturing further activated the imbalance of commodities supply. We are glad to see that our developments are in good progress and in line with the robust market situation. In addition to the performance of our core business, we have changed the Company name to "Fushan International Energy Group Limited 福山國際能源集團有限公司" in June to reflect our principal activities in, and future commitment to the energy sector.

FINANCIAL POSITION

Material Acquisitions and Disposals

On 29 June 2005, the Group entered into the Acquisition Agreement to acquire a further 13% equity interests in an associated company namely 山西曜鑫煤焦有限公司 Shanxi Yao Zin Coal and Coking Company Limited ("Shanxi Yao Zin") , which owned 38% equity interests by the Group before the acquisition, at a consideration of approximately HK$4,995,000. Upon completion of the Acquisition Agreement on 11 August 2005, Shanxi Yao Zin became a subsidiary of the Company as the Group held a 51% equity interest. Shanxi Yao Zin is engaged in the production and sales of coking coal products in the PRC. Details of the transaction were disclosed in the circular of the Company dated 23 August 2005.

Charges on Assets

At 31 December 2005, other than certain construction in progress with a carrying value of approximately HK$47,764,000 pledged for a bank loan of HK$22,898,000, none of the Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

At 31 December 2005, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions.

Gearing Ratio

At 31 December 2005, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by shareholders' funds, was approximately 282%. The borrowings were mainly for financing certain construction and installation of plant and machinery of two subsidiaries for the production of coking coal products in the PRC.

Exposure To Fluctuations In Exchange Rates

At 31 December 2005, other than assets and liabilities denominated in Renminbi, the Group had no other material exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

At 31 December 2005, the Group's current ratio (current assets divided by current liabilities) was approximately 0.40 and the Group's cash and bank deposits amounted to HK$10,587,000.

FINANCIAL POSITION *(cont'd)*

Staff

The Group had 7 Hong Kong employees and 212 PRC employees at 31 December 2005 with remuneration package to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for PRC employees *(Note 3(r) to the financial statements)*. The Group has also adopted share option scheme since 20 June 2003 *(Note 34 to the financial statements)*. No share option was granted under the share option scheme during the year and no share option was outstanding as at 31 December 2005.

DIVIDEND

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2005.

FUTURE PROSPECTS

2006 will be an encouraging year as indicated by the market indices. Both China and India continue to play the important role of trade flows in the region. The GDP of China reached RMB1,820 billion, turned out to be the world's fourth largest economic union in the previous year. According to the announced Five-Year Plan, China programmed to make progress of a quality economic growth together with the development of a resource-conserving and environment-friendly society. With implementation of the new policies, the achievement of annual target 7.5% economic growth is anticipated.

In respect of coal mine investments, the Group has been carrying out tremendous works in the past few years on a target mine including due diligence exercise, mining exploration reports and relevant documents. We have made sustained progress gradually as the Group was granted with the exploration permit and rights, consents for the target mine by the relevant departments of the China government insofar. The Group will complete the necessary procedures accordingly in order to obtain the mining rights eventually.

Through the years, we have been focusing our effort and investing continuously into coal sector to retain the maximum presence in the China energy market. A diversified revenue base on our core business combining both energy and resources will be well established once the coal mining rights is awarded; and together, a comprehensive platform of organic growth on profit will be realised in line with our strategy to bring impressive returns to our shareholders.

On behalf of the Company, I would take this opportunity to thank you our fellow Directors and the colleagues for their support and performance in driving the core business of the Group into a new era.

SO Kwok Hoo
Executive Director

Hong Kong, 19 April 2006