

Directors' Report

The board of directors (the "Directors") submit herewith their annual report together with the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company and is also engaged in sales and marketing of coal products and sales of jewellery products. The Group is principally engaged in production and sales of coking coal products and side products and sales of jewellery products. Particulars of the subsidiaries are set out in note 18 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 and the state of affairs of the Group and the Company as at that date are set out in the financial statements on pages 17 to 51.

The Directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of share capital of the Company as at 31 December 2005 are set out in note 33 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in note 35 to the financial statements.

The Company did not have any reserves available for distribution as at 31 December 2005, calculated under Section 79B of the Hong Kong Companies Ordinance.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company during the year are set out in note 15 to the financial statements.

BANK LOAN AND OTHER BORROWINGS

Particulars of bank loan and other borrowings of the Group and of the Company as at 31 December 2005 are set out in notes 27 to 32 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 52 of the annual report.

RETIREMENT SCHEMES

The Group provides a mandatory provident fund scheme for Hong Kong employees and a state-sponsored retirement plan for PRC employees. Particulars of these retirement schemes are set out in note 3(r) to the financial statements.

CHANGE OF NAME OF THE COMPANY

By a special resolution passed at the last annual general meeting of the Company on 17 June 2005, the name of the Company was changed from "Fushan Holdings Limited 福山控股有限公司" to "Fushan International Energy Group Limited 福山國際能源集團有限公司". The Certificate of Change of Name of the Company was issued by the Companies Registry in Hong Kong on 24 June 2005, and the name of the Company was changed with effect from 24 June 2005 accordingly. The new name of the Company is to reflect that the current principal activities of the Group are production and sales of coking coal products and side products.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

DIRECTORS

The directors during the year were:

Mr. WONG Lik Ping
Mr. SO Kwok Hoo
Mr. LI King Luk
Mr. KEE Wah Sze
Mr. CHOI Wai Yin
Mr. CHAN Pat Lam

In accordance with Article 98 of the Company's Articles of Association, Mr. So Kwok Hoo shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam are independent non-executive directors and were appointed for a one-year term expiring on 31 December 2006, 30 June 2006 and 31 December 2006 respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of Directors are set out on page 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Mr. Wong Lik Ping's interest in contracts of significance in relation to the Group's business are set out in Notes 30 and 31 to the financial statements.

Save as disclosed above, no other contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 20 June 2003, the shareholders of the Company approved the adoption of a new option scheme ("the Scheme") and to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution. No share option has been granted since the adoption of the Scheme. Other particulars of the Scheme are set out in note 34 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements, which enable a director or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 31 December 2005, the interests and short positions of the directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("The Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in ordinary shares (HK\$0.10 each) of the Company:

Name of director	Personal interests	Number of ordinary shares held		Total	% of issued share capital of the Company
		Corporate interests			
Mr. Wong Lik Ping	90,750,000	1,149,200,000 (Note)	1,239,950,000		59.59%

Note: Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,149,200,000 ordinary shares in the Company at 31 December 2005.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, debentures or underlying shares of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 31 December 2005, no other person, not being a director or chief executive of the Company, other than the directors or chief executives of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and Short Positions" above, had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	60%
– five largest suppliers in aggregate	100%

Sales

– the largest customer	58%
– five largest customers in aggregate	100%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these suppliers or customers.

CONFIRMATION OF INDEPENDENCE

The Company has received an annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange and considers all the independent non-executive directors to be independent.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Grant Thornton retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Grant Thornton as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

So Kwok Hoo
Executive Director

Hong Kong, 19 April 2006