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Australian Securities Exchange
Company Announcements
Level 4
20 Bridge Street
Sydney NSW 2000

FELIX RESOURCES RECOMMENDS ALL-CASH OFFER FROM YANZHOU COAL MINING COMPANY

Highlights

- Shareholders will receive A\$16.95 per share in cash from Yanzhou
- Shareholders will also receive dividends of A\$1.00 per share
- Shareholders will also receive an in-specie distribution of shares with a cash backing of A\$0.05 per share in Felix's subsidiary South Australian Coal Corporation (SACC)
- The transaction is unanimously recommended by Felix's Board of Directors subject to the opinion of the Independent Expert and in the absence of a superior proposal
- The consideration reflects an attractive premium to Felix's share price when taking into account the dividends, 'spin-off' of SACC, and recent take-over speculation
- As part of the A\$1.00 per share in total dividends, Felix is today declaring a fully franked dividend of A\$0.50 per share. The remainder of the dividends are conditional on approval of the transaction and are expected to be fully franked
- Consolidates Yanzhou's position in the Australian coal market and provides expertise and substantial funding capacity for the continued development of the Moolarben project and for future exploration and development
- Yanzhou is committed to retaining Felix's existing employees and management and maintaining the current workforce at Yanzhou's current Australian operations. Yanzhou will grow the combined workforce as development projects are brought into production and future exploration opportunities become development projects
- Yanzhou is committed to establishing a strong corporate presence in Australia and will keep Felix's head office located in Australia
- Yanzhou will continue the timely development of Felix's Moolarben project and remains focused on funding and growing Felix's exploration program in Australia, including the Athena, Wilpeena and Harrybrandt projects
- Yanzhou will continue the research and development on Felix's Ultra Clean Coal technology at Felix's Cessnock R&D facilities
- Yanzhou is committed to working with Felix's existing joint venture partners to ensure optimal performance of Felix's assets. These joint venture partners are established multi-national companies
- Completion of the transaction is subject to regulatory approvals and other conditions including the 'spin-off' by Felix of SACC.

Offer Summary

Felix Resources Limited ("Felix") is pleased to announce the proposed acquisition of all of the outstanding shares in Felix by Yanzhou Coal Mining Company Limited ("Yanzhou") via a scheme of arrangement ("the Offer"). On completion of the Offer, shareholders will have received:

- a cash payment of A\$16.95 per share;
- the payment of dividends totaling A\$1.00 per share, funded primarily from Felix's cash reserves;
 - as part of the A\$1.00 per share in total dividends, Felix is today declaring a fully franked dividend of A\$0.50 per share to be paid to shareholders in respect of the year ended 30 June 2009. This dividend will be paid on 30 October 2009 with a record date of 15 October 2009, and;
 - The record date for the second dividend of A\$0.50 will be determined and announced to the market closer to completion.
- an in-specie distribution of shares in SACC which will have a cash backing of A\$0.05 per share and coal and mineral exploration tenements in South Australia.

To the extent that Felix does not have sufficient cash reserves to pay the remainder of the dividends, Yanzhou will guarantee the payment within 3 months of the scheme implementation date.

The total value received by Felix Shareholders for every Felix share represents a 28.5% premium to the 3 month VWAP¹.

In assessing the value of the offer, it is recognised that the current share price of Felix has been impacted by recent market speculation of potential corporate activity, including press reports of Yanzhou's interest directly.

The Felix Board of Directors believes that the Offer is in the best interests of shareholders. The Directors unanimously recommend that Felix shareholders vote in favour of the Offer. Each of the Directors intends to vote in favour of the Offer at the scheme meeting in relation to the Felix shares held or controlled by them. The Directors recommendation and intention to vote on the Offer is subject to:

- the Independent Expert concluding that the Scheme of Arrangement is in the best interests of Felix shareholders; and
- there being no Superior Offer.

Completion of the transaction is subject to a number of conditions including the approval by regulatory authorities in Australia and the People's Republic of China ("PRC") as well as approval by both Felix and Yanzhou shareholders.

An Explanatory Memorandum containing information relating to the Offer and the reasons for the Directors recommendation of the Offer is expected to be dispatched to Felix shareholders in late September. Felix's shareholder meeting to approve the scheme of arrangement is expected to be held in mid-December 2009.

Chairman of Felix, Mr Travers Duncan said: "The proposed transaction is an important milestone for Felix shareholders. Since the acquisition of White Mining in April 2005, Felix has

¹ Based on the 3 month VWAP of \$14.01 between 8 May 2009 and 7 August 2009.

met a number of significant development milestones and delivered more than a six fold increase in value for shareholders

"The Yanzhou offer allows shareholders to benefit from the certainty of cash consideration which fully values Felix, without taking on the risks associated with Felix's next phase of growth

"Given Yanzhou's global experience and expertise in coal mining, we believe that Yanzhou is well positioned to continue Felix's development to the benefit of all stakeholders, including their commitment to maintain and possibly expand employee numbers. In addition, Felix will continue to be headquartered in Australia and will continue to generate substantial economic benefits for the economy for many years to come

"Both Felix and Yanzhou recognise that the Offer is subject to a range of regulatory and shareholder approvals in Australia and China and, fully respecting those processes, both companies will work constructively with authorities at all times.

"Both companies recognise the importance of this transaction and its potential to deliver significant employment and economic benefits," Mr Duncan said.

Key conditions and funding

Key conditions contained within the Scheme Implementation Agreement between Felix and Yanzhou include:

- Foreign Investment Review Board ("FIRB") approval;
- PRC Government approvals, including the China Securities Regulatory Commission ("CSRC"), the State-owned Assets Supervision and Administration Commission ("SASAC"), State Administration of Foreign Exchange ("SAFE"), Ministry of Commerce ("MOFCOM") and National Development and Reform Commission ("NDRC");
- Any necessary ASIC and ASX approval;
- 'Spin-off' by Felix of SACC;
- The independent expert concludes the scheme is in the best interest of shareholders;
- No other material transactions or prescribed occurrences;
- No material adverse changes impacting the value of Felix, its assets and operations;
- Yanzhou shareholder approval;
- Felix shareholder approval;
- Final approval from Yanzhou's banks; and
- Court approval of the scheme.

The summary terms and conditions of the Offer are set out in the Attachment.

Yanzhou has indicated that the Offer will be financed from its existing cash resources (approximately A\$1.8 billion as at 30 June 2009) and bank debt. Yanzhou has access to significant capital from Chinese institutions and has received indicative approval for a long-term credit facility to fund the remainder of the purchase price.

South Australia Coal Corporation

SACC is currently a subsidiary of Felix and owns 100% of the Lake Phillipson exploration projects which include a coal deposit and is also prospective for other minerals. As part of the transaction it is proposed that SACC will be demerged via an in-specie distribution of shares to all Felix shareholders in proportion to their existing shareholding. In addition to the exploration assets SACC will retain A\$10 million in cash at the time it is demerged. SACC is expected to seek an ASX listing following the proposed demerger.

Information about the SACC assets has been provided in previous annual reports.

The details of the in-specie distribution, including the ratio of SACC shares to Felix shares, will be provided to shareholders in the Explanatory Memorandum.

Indicative timetable

Subject to the timely receipt of necessary approvals, Felix expects the transaction to be completed by late December 2009. The indicative timetable for implementation of the proposed scheme of arrangement is set out below.

Date	Item
Late-September	Explanatory Memorandum dispatched to Felix shareholders
Late-September	Satisfaction of Australian regulatory approvals
Mid-October	Yanzhou shareholder approval
Late-October	Payment of first Felix dividend of A\$0.50
Early-November	Final PRC and Hong Kong regulatory approvals obtained
Early-December	Felix shareholder meeting to approve scheme of arrangement
Mid-December	Scheme of arrangement becomes effective
Late-December	Felix shareholders receive Offer consideration of A\$16.95 plus the second dividend of A\$0.50

Advisers

Citi and Wilson HTM are acting as financial advisers and Allens Arthur Robinson are acting as legal advisers to Felix.

UBS Investment Bank is acting as financial adviser and Corrs Chambers Westgarth is acting as Australian legal adviser to Yanzhou.

Felix:

For further information please contact Brian Flannery – Managing Director +617 3248 7900

About Felix

Felix is an independent ASX-listed coal producer with four operating mines and exploration interests in New South Wales and Queensland. The Company produces PCI, semi-soft coking and thermal coals, and is a party to the Newcastle Coal Infrastructure Group (NCIG). Its major export markets are located in Japan, South Korea, Taiwan, China and India

Further information regarding Felix's business is available from its website:
www.felixresources.com.au

Yanzhou:

For further information please contact Ian Smith – Bespoke Approach +618 84192888
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About Yanzhou

Yanzhou Coal Mining Company Limited is a publicly-traded company that is listed in Hong Kong, New York and Shanghai.

Yanzhou is located in the Shandong Province, PRC, and is principally engaged in underground coal mining, preparation and processing, sales and railway transportation for coal. Yanzhou operates six coal mines in PRC as well as a regional rail network that links these mines with the national rail network. Yanzhou also has presence in Australia through its 100% owned subsidiary Yancoal Australia, which acquired and re-opened the Astar Coal Mine in early 2005. The Astar Coal Mine is a longwall underground mine located in New South Wales. Yanzhou has brought mining technology novel to Australia to significantly increase the coal recovered from the Astar Coal Mine.

Yanzhou has grown into a large-scale coal enterprise with a strong presence in the markets of South and East China, Northeast Asia and Australia. Yanzhou employs over 47 thousand people worldwide.

Further information regarding Yanzhou's business is available from its website:

<http://www.yanzhoucoal.com.cn>

Attachment – Summary of key terms of Scheme Implementation Agreement

Felix Resources Limited (**Felix**) and Yanzhou Coal Mining Company Limited (**Yanzhou**) have entered into a Scheme Implementation Agreement (**SIA**) dated 13 August 2009 which sets out the obligations of Felix and Yanzhou in connection with the implementation of the proposed transaction.

A summary of the structure of the transaction and an outline of the key terms of the SIA are set out below.

1. Transaction structure

Felix will propose a scheme of arrangement (**Scheme**) under which Felix shareholders participating in the Scheme will transfer their shares in Felix (**Scheme Shares**) to Yanzhou for cash consideration of A\$16.95 for each Scheme Share.

Shareholders will also receive from Felix cash dividends totaling A\$1.00 per share (being the A\$0.50 dividend declared today and a special dividend of A\$0.50 payable to shareholders no later than 3 months after implementation of the transaction). Felix also proposes to make an in-specie distribution of shares in Felix's subsidiary South Australian Coal Corp (**SACC**) with a cash backing of A\$0.05 per share.

2. Conditions Precedent

Implementation of the Scheme is subject to the satisfaction or waiver of a number of Conditions Precedent being that:

- a) FIRB, ASIC, ASX and People's Republic of China government and regulatory approvals, and any other regulatory approvals required to implement the Scheme, are obtained;
- b) no Governmental Agency acts in any way to restrain, prohibit or impede the implementation of the Scheme;
- c) no court order or other legal restraint exists to prevent the implementation of the Scheme;
- d) no Material Adverse Change occurs, including an event which diminishes consolidated net assets of the Felix group by A\$200 million or more, or diminishes the aggregated consolidated annual net profit before tax of the Felix group over 5 consecutive financial years by A\$100 million or more, or has the result that the Felix group is unable to carry on its business in substantially the same manner but excluding any event beyond the control of the Felix group (which includes any event that relates to interest rates, commodity prices or currency exchange rates);
- e) no Prescribed Occurrence occurs, including changes in the structure of Felix's share capital or (other than in the ordinary course of business and consistent with the business plans for Felix's joint ventures or Yarrabee) a member of the Felix group acquiring or disposing assets for more than A\$5 million or entering contracts involving revenue or expenditure of more than A\$5 million (without Yanzhou's consent);
- f) no Material Transaction occurs, including an issue of debentures, constitutional amendments, disposal of shares (other than in relation to the in-specie distribution of the shares in SACC), incurring of financial indebtedness other than in the ordinary course of business or as disclosed, making capital contributions (other than in relation to the in-specie distribution of the shares in SACC) and making material changes to joint venture agreements;
- g) the Scheme is approved by the Federal Court of Australia;
- h) the Scheme is approved by the required majorities of Felix shareholders at the Scheme Meeting;

- i) the Scheme is approved by a two-thirds majority of Yanzhou shareholders at a Yanzhou EGM;
- j) the Independent Expert to be appointed by Felix concludes that the Scheme is in the best interests of Felix shareholders;
- k) Yanzhou enters into the Financing Arrangements required to fund the payment of the Scheme Consideration to Felix shareholders participating in the Scheme;
- l) Felix obtains all necessary consents, waivers and releases required from the providers of its finance facilities;
- m) Felix obtains a waiver from each relevant party of all rights that may arise as a result of the transaction under certain of the Joint Venture Agreements including Ashton and Minerva;
- n) Felix effects the divestment of SACC, to be effected by declaration of an in-specie distribution of SACC shares in the absence of any agreement to the contrary;
- o) all representations and warranties given in the SIA are materially true and correct as at relevant dates; and
- p) Felix does not make dividend payments of over A\$1.00 (not including any in-specie distribution of shares in SACC or dividends made between Felix group members).

Each party has agreed to use all reasonable endeavours to procure that each of the Conditions Precedent for which it is responsible is satisfied as soon as practicable and that there is no occurrence that would prevent the Conditions Precedent for which it is responsible being satisfied. Most of the Conditions Precedent noted above may be waived by one or both parties as specified in the SIA.

3. Implementation

Each of Felix and Yanzhou are obliged to use all reasonable endeavours and utilise all necessary resources to produce the Scheme Booklet and progress the Scheme in accordance with the timetable set out in the SIA.

Felix has agreed to commission an Independent Expert's Report in respect of the Scheme, and to carry on its business and operations in the ordinary course and substantially consistent with the manner in which they have been conducted previously.

The SIA also contains specific provisions dealing with the issue, exercise or cancellation of all outstanding options and option rights under the existing Felix equity participation plans.

4. Reconstitution of Felix Board

Felix's Board will be reconstituted with Yanzhou nominees on the Implementation Date.

5. Recommendation of Felix Board

Felix has agreed to use its reasonable endeavours to procure that each of its directors maintains their recommendation of the transaction, subject to:

- a) the Independent Expert concluding that the transaction is in the best interests of Felix shareholders; and
- b) there being no Superior Proposal (being, in summary, a publicly announced bona fide counterproposal from a third party which the Felix Board determines, acting in accordance with its fiduciary duties, is capable of being valued and completed and is more favourable to Felix shareholders than the Scheme).

6. Break Fees

Felix and Yanzhou have agreed that a break fee of A\$33.3 million ("**Break Fee**") will be payable in the following circumstances:

- a) Felix will pay the Break Fee to Yanzhou if:
 - i. in the period up to implementation (or termination) of the Scheme, any Felix director fails to state that the transaction is in the best interests of Felix shareholders or publicly changes or withdraws their recommendation, or a Competing Proposal is recommended by a majority of the Felix Board;
 - ii. a Competing Proposal is announced or made before the expiry of the Exclusivity Period, and is completed before the first anniversary of the SIA, as a result of which a third party acquires a Relevant Interest and/or economic interest in at least 20% of the shares in Felix; or
 - iii. the SIA is terminated by Yanzhou because of Felix's material breach or breach of Felix's exclusivity obligations (discussed in section 7 below); and
- b) Yanzhou will pay the Break Fee to Felix if Felix terminates the SIA because of Yanzhou's material breach or where Yanzhou fails to obtain financing required to fund the transaction.

A Competing Proposal is, in summary, any proposal by a third party to acquire 20% or more of the shares (or a 20% economic interest) in Felix, or to gain effective control over Felix (by controlling the composition of Felix's board or the votes attaching to 50% or more of Felix's shares), or directly or indirectly acquire a significant shareholding or economic interest in the Felix group (not including in relation to the in-specie distribution of SACC shares to Felix shareholders).

7. Exclusivity

Under the SIA, Felix has agreed to the following exclusivity arrangements until implementation (or termination) of the Scheme:

- a) (**No shop restriction**) it will not solicit or encourage Competing Proposals;
- b) (**No talk restriction**) it will not negotiate or enter into discussions with any Third Party in relation to a Competing Proposal; and
- c) (**No due diligence**) it will not provide any due diligence information for the purposes of enabling a Third Party to make a Competing Proposal.

The 'no talk' and 'no due diligence' restrictions will not apply to a Competing Proposal that is not solicited in breach of the SIA and that the Felix Board determines, in accordance with its fiduciary or statutory duties, to be a Superior Proposal.

Felix is also required to notify Yanzhou of the details of any approaches made to Felix that may potentially lead to a Competing Proposal. If Felix receives a Superior Proposal, Felix's Board must provide Yanzhou with a 5 Business Day period within which Yanzhou can put forward a counterproposal. If Felix's Board decides that such counterproposal produces a superior outcome for the Felix shareholders than the Competing Proposal, then the counterproposal will be implemented.

8. Termination

The SIA provides for the following termination rights:

- a) by either party if:
 - i. the resolution to approve the Scheme submitted to the Scheme Meeting is not approved by the requisite majorities of Felix shareholders;
 - ii. the Scheme has not become effective by 31 March 2010 (or such other date agreed by Yanzhou and Felix);
 - iii. the Independent Expert concludes that the Scheme is not in the best interests of Felix shareholders;
 - iv. either party materially breaches the SIA and fails to cure such breach within 5 Business Days;
 - v. the Federal Court of Australia refuses to make an order convening the Scheme Meeting or approving the Scheme;
 - vi. a court or other regulatory authority issues an order, decree or ruling or takes any other action which permanently restrains or prohibits the Scheme;
 - vii. there is a failure of a Condition Precedent; or
 - viii. an Insolvency Event occurs in relation to either party or material members of the corporate groups of Felix or Yanzhou;

- b) by Yanzhou if:
 - i. Target breaches its exclusivity obligations (discussed in section 7 above);
 - ii. any Felix director changes or withdraws their recommendation that Felix shareholders vote in favour of the Scheme; or
 - iii. a Competing Proposal in relation to Felix is recommended by Felix's Board;and

- c) by Felix if Felix's Board changes its recommendation of the Scheme, or recommends a Superior Proposal in relation to Felix.

9. Representations and warranties

Each of Felix and Yanzhou has given representations and warranties which are normal for a transaction of this nature, including representations and warranties as to information to be contained in the Scheme Booklet and compliance with disclosure obligations.