We have commissioned Shanxi Fenwei Energy Consulting ("Fenwei"), as industry consultant, to prepare an independent expert report on the energy sector in China (the "Fenwei Report") for use in whole or in part in this prospectus. Fenwei prepared its report based on Fenwei's in-house database, independent third-party reports and publicly available data from reputable industry organisations. Where necessary, Fenwei visits companies operating in the industry to gather and synthesize information about the market, prices and other relevant information. Fenwei has assumed that the information and data which it relied on are complete and accurate.

Fenwei has provided part of the statistical and graphical information contained in this Industry Overview. The Industry Overview includes tables of historical data and estimated future supply, demand and market trends created by compiling, interpreting and analysing engineering, production, economic, statistical and technical information from many third-party sources. The information contained herein has been obtained from sources believed by Fenwei to be reliable, but there can be no assurance as to the accuracy or completeness of included information. Unless otherwise specified, all of the data presented in this section with respect to the Chinese coal industries has been extracted from the Fenwei Report. We paid Fenwei a total of RMB80,000 in fees for the preparation and update of the Fenwei Report.

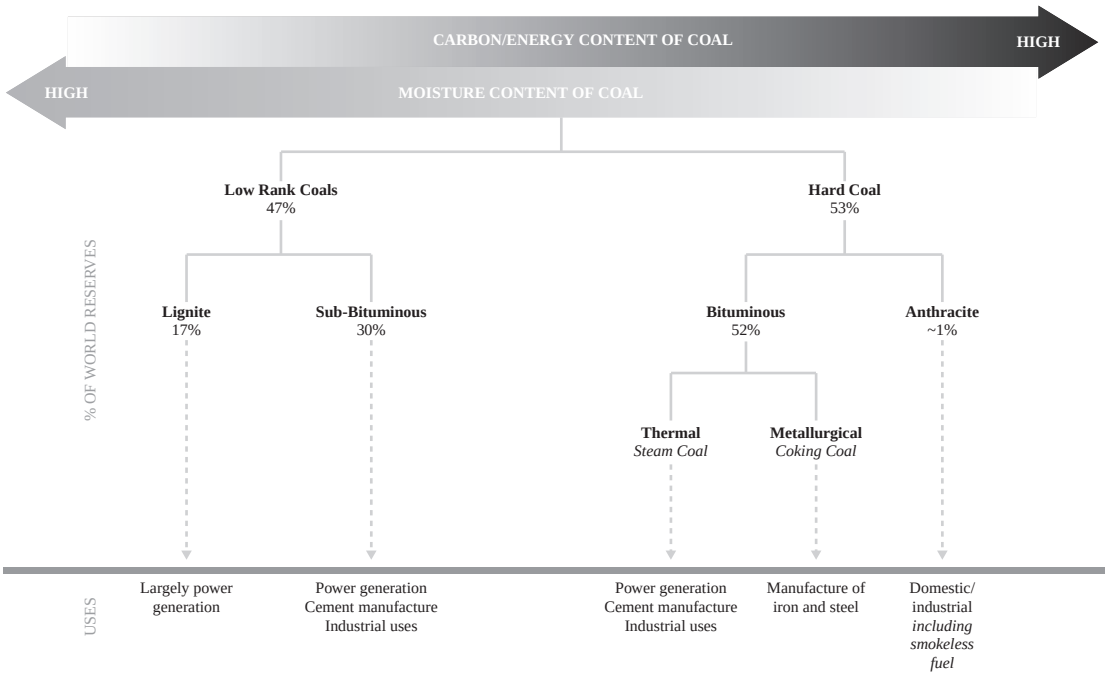
Investors should note that no independent verification has been carried out on any facts or statistics that are directly or indirectly derived from official government and non-official sources. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. The Company, the Joint Sponsors, the Joint Lead Managers, any of the Underwriters, any of their respective directors and advisors or any other persons or parties involved in the International Offering make no representation as to the accuracy of the information from official government and non-official sources, which may not be consistent with other information. Accordingly, the official government and non-official sources contained herein may not be accurate and should not be unduly relied upon.

References to "reserves" or "resources" of coal in this section are not references to reserves or resources determined in accordance with CIM Standards and NI 43-101. Unless otherwise specified, all of the data presented in this section with respect to PRC coal reserves and resources refer to the PRC national standard for the Classification of Resources/Reserves for Solid Fuels and Mineral Commodities (GB/T 17766-1999).

AN INTRODUCTION TO COAL

Coal is a fossil fuel with various categories ranging from peat to anthracite referred to as the rank of coal. The classification of coal is dependent on the level of coalification, the degree of change undergone by a coal as it matures from peat to anthracite. The following diagram summarises the different types of coal and their associated end-uses.

Types of Coal



Source: World Coal Institute: The Coal Resource (2005)

Lignite and sub-bituminous coals are examples of low rank coals, which are typically softer, friable materials with a dull, earthy appearance. They are characterised by high moisture levels and lower levels of carbon and energy.

Coking coals and anthracite are examples of higher rank coals, which are generally harder and stronger and often have a black, vitreous lustre. They contain more carbon, have lower moisture content, and produce more energy.

The energy content of coal is commonly measured as the heat released upon complete combustion in air or oxygen, expressed as the amount of heat (measured in kilocalories) per unit weight of coal (measured in kilograms) or "kcal/kg". Generally, coal with a higher energy content is considered premium quality and commands a higher price.

Thermal coal is primarily used as an input in the power sector to produce electricity and heat. Coking coal is primarily used as an input for the production of coke in coke ovens, which is consumed in blast furnaces in the production of pig iron (pig iron including alloy forms is subsequently converted to steel in an oxygen steel furnace).

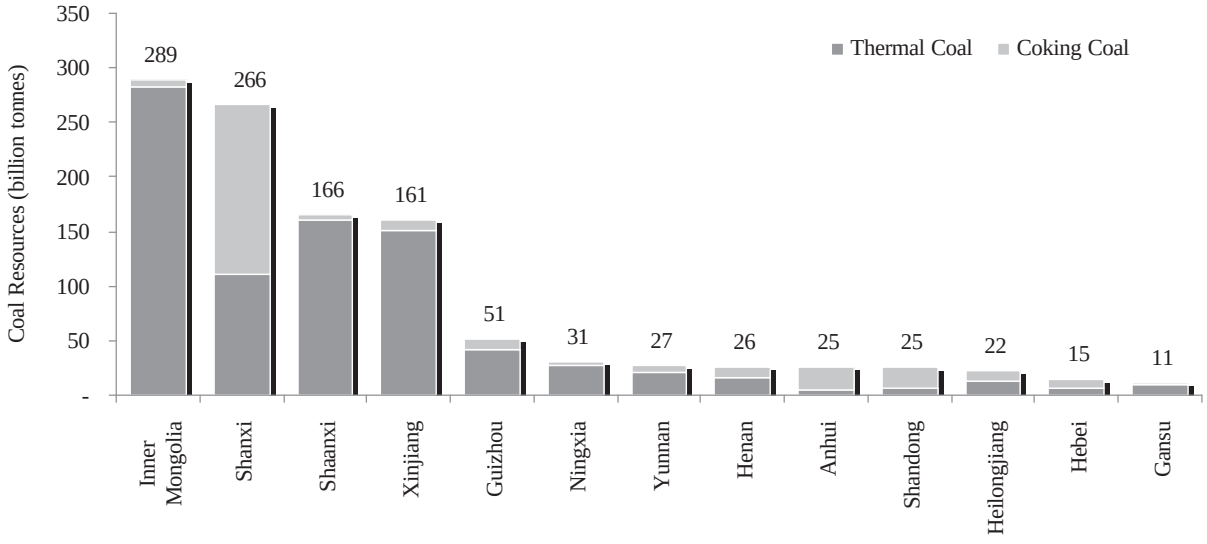
CHINESE COAL INDUSTRY

According to Fenwei, China had approximately 1,160 billion tonnes of coal resources at the end of 2007. Thermal coal resources are estimated at approximately 879 billion tonnes and accounted for approximately 76% of total resources. Coking coal resources are estimated at approximately 281 billion tonnes and accounted for the remaining balance of approximately 24% of total resources. China's coal resources are generally distributed in the central eastern part of the country (in particular the eastern side of Inner Mongolia Province and Shanxi Province), with some coal in Xinjiang, China's most north-western province.

Location of China's Coal Resources 2007

Source: Fenwei Report

China Coal Resources Distribution by Province (2007) — Top 13 Provinces

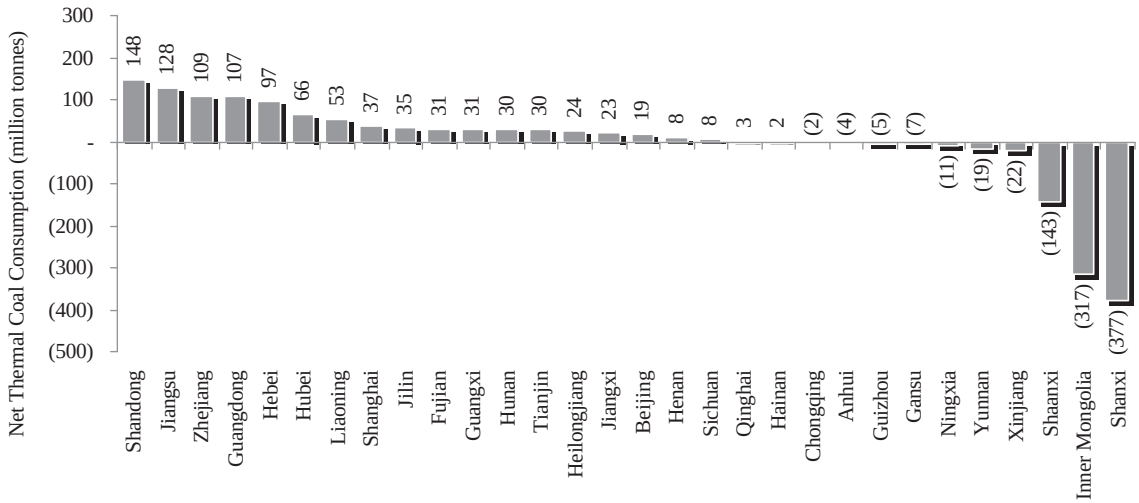


Source: Fenwei Report

Thermal Coal Market Overview

China is the world's largest producer and consumer of thermal coal. Chinese thermal coal production has increased at a compound growth rate of 6.5% from 1.4 billion tonnes in 2003 to 2.0 billion tonnes in 2009 (annualised based on year-to-date June 2009 production). Thermal coal production is concentrated in four key producing provinces, namely Shanxi, Inner Mongolia, Shaanxi and Henan. Combined, these four provinces produced approximately 1.3 billion tonnes thermal coal in 2008, which represented approximately 61% of total Chinese thermal coal production in 2008.

China Net Thermal Coal Consumption by Province (2008)



Source: Fenwei Report

Thermal coal demand in China is largely driven by electricity generation from coal fired power plants. According to Fenwei, electricity generation accounted for approximately 70% of total thermal coal consumption in China in 2008.

China's macroeconomic policies have led to the development of substantial downstream industrial sectors, which have supported strong demand for electricity generation. According to Fenwei, installed electricity generation capacity has been growing at a compound annual growth rate of 14.9% from 396 gigawatts in 2003 to 792 gigawatts in 2008. As at June 2009, installed electricity generation capacity was further increased to 825 gigawatts, with approximately 75% of electricity generation capacity attributable to coal fired power plants.

Consequently, Chinese thermal coal demand has grown significantly and broadly in line with growth in demand for electricity generation. China thermal coal demand increased from 1.4 billion tonnes in 2003 to 2.0 billion tonnes in 2009 (annualised based on year-to-date June 2009 demand), which is equivalent to a compound annual growth rate of 6.3%.

China Historical Thermal Coal Production and Demand and Coal Fired Electricity Generation

	2003	2004	2005	2006	2007	2008	2009 YTD annualised	CAGR 2003-2009 YTD annualised
Thermal coal production (million tonnes)	1,371	1,598	1,684	1,794	1,960	2,145	2,000	6.5%
Thermal coal demand (million tonnes)	1,402	1,598	1,746	1,907	2,058	2,227	2,024	6.3%
Balance (million tonnes)	(31)	—	(61)	(113)	(98)	(82)	(24)	N/A
Coal fired electricity generation (billion kWh)	1,627	1,823	2,103	2,316	2,705	2,786	2,624	8.3%

Source: Fenwei Report

Based on China's Five-Year-Plan for 2011-2015, China is expected to increase annual coal production to reach total coal production of 3.3 billion tonnes by 2015. Fenwei forecasts that this increase in mine output will see Chinese thermal coal production reaching 2.7 billion tonnes by 2015.

Fenwei forecasts that coal fired electricity generation will continue to grow at a compound annual growth rate of 4.7% between 2009 and 2015 from 3,018 billion kWh to 3,968 billion kWh. Consequently, Fenwei projects that thermal coal demand for electricity generation will increase from 1.6 billion tonnes in 2009 to 1.9 billion tonnes in 2015, representing a compound annual growth rate of 2.6%. In general, Fenwei forecasts that China total thermal coal demand will increase from 2.2 billion tonnes in 2009 to 2.7 billion tonnes in 2015.

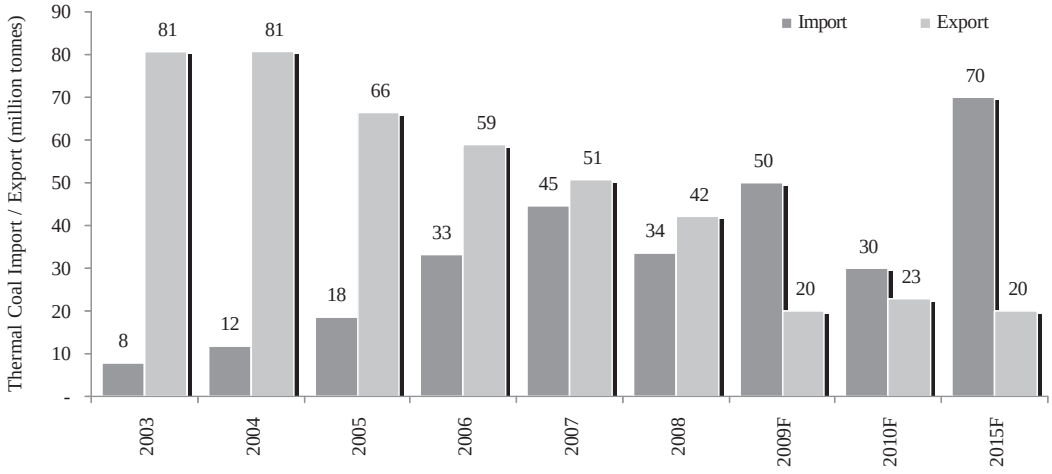
As part of its long-term strategy to preserve its domestic natural resources base, the PRC Government has been encouraging international imports of natural resources, while also limiting exports. In 2005, the PRC Government lowered the customs duty on thermal coal imports to 3% and implemented coal export quotas. The customs duty on thermal coal imports was further lowered to 0% in 2006. Effective from August 2008, the customs duty on thermal coal exports was set at 10%. This has resulted in a significant increase in international thermal coal imports from 7.7 million tonnes in 2003 to 33.6 million tonnes in 2008. The trend of strong imports continues in 2009, with total thermal coal imports for the first half of 2009 amounting to 35.6 million tonnes, annualised to 71.2 million tonnes, which represents a 112% increase from 2008. Thermal coal exports, on the other hand, have decreased significantly from 80.7 million tonnes in 2003 to 42.0 million tonnes in 2008. Exports further decreased

in 2009, with total exports of 11.5 million tonnes for the first half of 2009, annualised to 23.0 million tonnes, which represents a 45.4% decrease from 2008.

China's international thermal coal importers are currently concentrated in the Guangdong and Guangxi provinces in southern China and other coastal provinces in eastern part of China. Good port conditions allow these coastal provinces to import coal directly from Australia, Indonesia and Vietnam. In the first half of 2009, Guangdong, Guangxi, Fujian and Shandong Provinces combined thermal coal imports amounted to 22.9 million tonnes or approximately 64% of total China's coal imports. Current China's thermal coal exports are mostly from production in Inner Mongolia, Shanxi and Shaanxi Provinces, with combined exports of 10.6 million tonnes or approximately 93% of total China's thermal coal exports in the first half of 2009.

The trend of increasing thermal coal import and decreasing thermal coal export is expected to continue in the future. Fenwei forecasts that China will move to a net thermal coal importer position in 2009. Thermal coal imports are projected to reach approximately 50 million tonnes in 2009 and approximately 70 million tonnes in 2015. Thermal coal exports are forecasted to further decrease in 2009 to 20 million tonnes and to remain in a range of approximately 20-25 million tonnes per annum between 2010 and 2015.

China Historical and Forecast Thermal Coal Imports and Exports

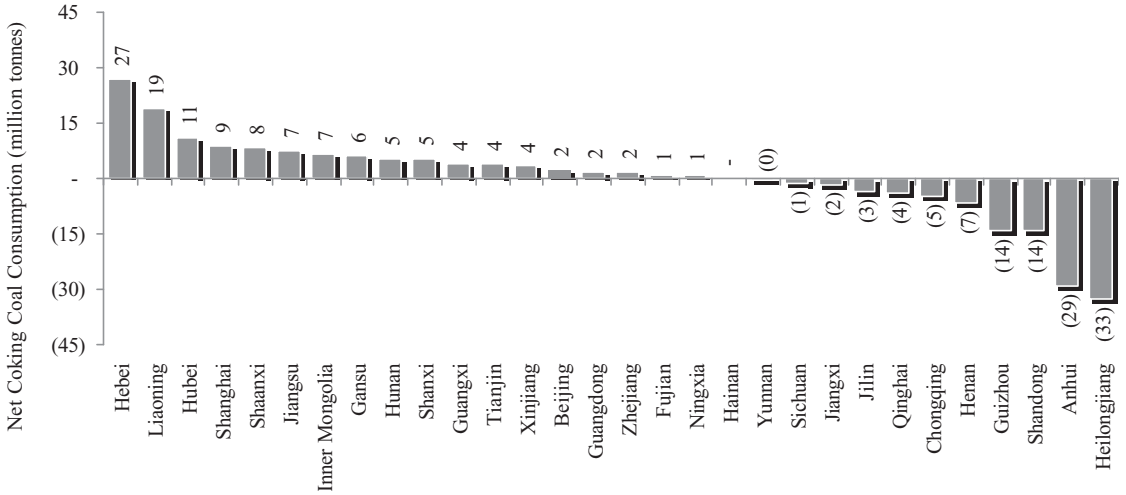


Source: Fenwei Report

Coking Coal Market Overview

China is the world's largest producer and consumer of coking coal. Coking coal production and consumption in China has grown significantly since 2003, primarily due to a significant expansion in steel production. Chinese coking coal production has increased at a compound annual growth rate of 7.1% from approximately 266 million tonnes in 2003 to approximately 403 million tonnes in 2009 (annualised based on year-to-date June 2009 production). In 2008, Shanxi Province was the largest coking coal producer and consumer, with total production of 103.7 million tonnes and total consumption of 109.0 million tonnes.

China Net Coking Coal Consumption by Province (2008)



Source: Fenwei Report

Chinese steel production has increased from approximately 222 million tonnes in 2003 to approximately 533 million tonnes in 2009 (annualised based on year-to-date June 2009 production), representing a compound annual growth rate of 15.7%. This has supported an expansion in coking coal demand from approximately 229 million tonnes in 2003 to approximately 422 million tonnes in 2009 (annualised based on year-to-date June 2009 demand), which represents a compound annual growth rate of 10.7%.

China Historical Coking Coal and Steel Production and Coking Coal Demand

	2003	2004	2005	2006	2007	2008	2009 YTD annualised	CAGR 2003-2009 YTD annualised
Coking coal production (million tonnes)	266	296	348	409	424	428	403	7.1%
Coking coal demand (million tonnes)	229	269	349	408	447	440	422	10.7%
Balance (million tonnes)	37	27	(1)	1	(23)	(12)	(19)	N/A
Steel production (million tonnes)	222	283	356	423	489	500	533	15.7%

Source: Fenwei Report

Steel production will remain the key driver of coking coal demand in the future. According to Fenwei, Chinese steel production will reach approximately 643 million tonnes in 2015. Demand for coking coal is projected to grow largely in line with growth in steel production to reach approximately 517 million tonnes in 2015, while production is projected to be lower than demand at approximately 505 million tonnes in 2015.

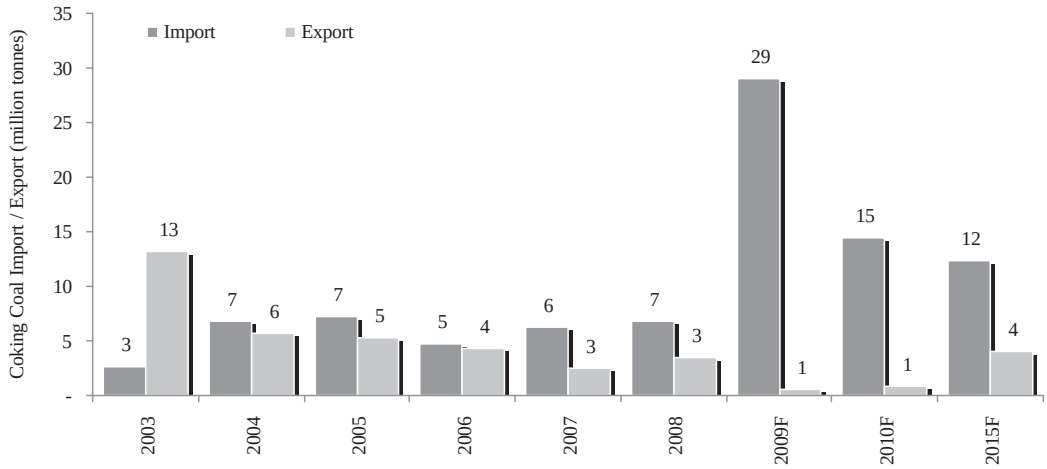
Increased demand for coking coal and corresponding export restrictions resulted in China moving from a net international exporter to a net international importer of coking coal in 2004. The PRC Government lowered the export tax rebate from 13% to 8% between 2004 and 2005. The export tax rebate policy was abolished in September 2006. In November 2006, a 5% customs duty on coking coal exports was imposed. Currently, the customs duty on

coking coal imports is set at 0% with 17% value-added-tax applicable, while the customs duty on coking coal exports is set at 10%.

These measures have seen international coking coal exports decline significantly from 13.1 million tonnes in 2003 to 0.4 million tonnes in 2009 (annualised based on year-to-date June 2009 exports), while international imports increased from 2.6 million tonnes in 2003 to 25.8 million tonnes in 2009 (annualised based on year-to-date June 2009 imports).

Australia and Mongolia are the two main coking coal suppliers to China. While coking coal from Australia is mainly shipped to coastal areas, the Provinces of Xinjiang, Gansu and Inner Mongolia are the key receiving markets for coking coal from Mongolia. Given the proximity of its mining operations to China, Mongolian coking coal operations are well-positioned to service the Chinese market and, in particular, its western and central provinces.

China Historical and Forecast Coking Coal Imports and Exports



Source: Fenwei Report

PRC Coal Transportation Infrastructure

Rail is the main method for long distance coal transportation within China. Chinese coal production is mainly concentrated in the Shanxi, Shaanxi and Inner Mongolia provinces in the northern part of China, while consumption has been relatively concentrated in the economically developed eastern and southern provinces. This defines the general movement of coal in China, which follows the west to east coal distribution routes.

The 652 kilometres Datong-Qinhuangdao Railway in northern China is one of the busiest coal railways in the country, transporting approximately 340 million tonnes of coal in 2008. The railway links coal production regions in Datong and Shanxi to the Qinhuangdao port in Hebei and plays a pivotal role in meeting coal demand of power generators in China's eastern and southern provinces. Qinhuangdao is one of the main ports of international and domestic coal imports and exports in China, transporting approximately 215 million tonnes of coals in 2008.

The 802 kilometres Shenmu-Huanghua Railway is another major coal railway in northern China, transporting approximately 134 million tonnes in 2008. This railway links coal mines in Erdos and Shenmu with Huanghua port in the coast of Hebei Province. Huanghua Port transported approximately 78 million tonnes of coal in 2008.

The 452 kilometres Jiace Railway connects Jiayuguan in southern Gansu with the Shivee Khuren-Ceke Mongolia-China border crossing. The 708 kilometres Lince Railway currently under construction will connect Linhe in Inner Mongolia with the Shivee Khuren-Ceke Mongolia-China border crossing, and will have capacity to transport approximately 20 million tonnes of coal in 2011. The 354 kilometres Ganquan Railway currently under construction will connect Baotou in Inner Mongolia with the Gashuun Sukhait-Ganqimaodao Mongolia-China border crossing when completed and will be able to transport approximately 40 million tonnes per annum of coal and copper concentrate from Mongolia to China.

Railway transportation cost varies depending on insurance fees and construction fund fees, and on whether it is a coal dedicated and electrified railway. The Datong-Qinhuangdao Railway, which is a coal dedicated and fully electrified railway, currently charges an all inclusive rate of RMB 0.12 per kilometre for every tonne of coal transported.

The PRC Government has significantly increased spending on railway development projects and undertaken to develop the construction of special coal transportation railways in the future to increase coal transportation capacity. Fenwei forecasts that total government spending for railway construction will reach approximately RMB600 billion for 2009 and RMB750 billion for 2010. This is a significant increase from approximately RMB360 billion spent during 2008. The 10 major railways in the northern part of China transported approximately 733 million tonnes of coal in 2008. Fenwei forecasts that the amount of coal transported by these major railways will increase to approximately 0.9 billion tonnes and 1.1 billion tonnes by 2010 and 2015, respectively.

KEY LOCAL MARKETS FOR SOUTHGOBI'S MONGOLIAN COAL

According to the market study by Fenwei, the key local markets for SouthGobi's Mongolian operations are Gansu province ("Gansu") and the western part of Inner Mongolia province ("Western Inner Mongolia").

Coal produced in the southeastern part of Gansu is mainly sold to neighboring provinces to the south and east. As China's coal supply mainly follows the west to east coal distribution routes, the central and western part of Gansu has experienced supply shortages. Coal supply has been particularly tight in the Hexi corridor, which includes the cities of Jiuquan, Jiayuguan, Zhangye and Jinchang.

Fenwei has identified these four cities as the key markets for SouthGobi in Gansu due to a combination of the proximity to the company's coal projects and a shortage of local supply. SouthGobi's Ovoot Tolgoi Mine is located 492 kilometres from Jiayuguan, while mines in the next closest major source of supply, Hami in Xinjiang, are located 619 kilometres away.

Between 2009 and 2020, power plants with an additional 16.8 gigawatts of electricity generation capacity are planned to be constructed in these four cities, the majority of which will be coal fired power plants. These power plant expansions are expected to increase thermal coal demand in these four cities from approximately 7 million tonnes in 2008 to approximately 51 million tonnes in 2020.

Gansu has no production of coking coal and all coking coal used in the steel industry is sourced from other provinces. With strong growth in steel production as the key driver for coking coal demand, Fenwei projects Gansu's coking coal demand to reach approximately 11 million tonnes in 2010 and approximately 13 million tonnes in 2015.

Inner Mongolia is a power supply base for China. While Inner Mongolia is currently the largest coal producing province in China, most of its coal deposits are located in its eastern regions, therefore, its western regions including Alashan, Wuhai and Baoyannao'er, have to source coal from other provinces in China or from South Gobi Province in Mongolia. Alashan and Bayannao'er are located in the most western part of Inner Mongolia,

and are closer to the Ovoot Tolgoi Complex than to other coal producing regions in Inner Mongolia. Wuhai, an important industrial city with a large concentration of coke producers and chemical companies, is located at the end of the existing northern coal railway system and has been experiencing capacity bottlenecks making it difficult to transport coal from eastern Inner Mongolia. This results in Wuhai having to purchase coal from other Chinese provinces and from Mongolia. There are 23 new coal fired power plants with a total capacity of 9.4 gigawatts currently under construction or planned in these three regions, and are expected to come onstream during the period 2009 to 2015, significantly increasing thermal coal demand. These power plant expansions are the main driver behind the expected increase in thermal coal demand in these three regions from approximately 12 million tonnes in 2008 to approximately 42 million tonnes in 2020.

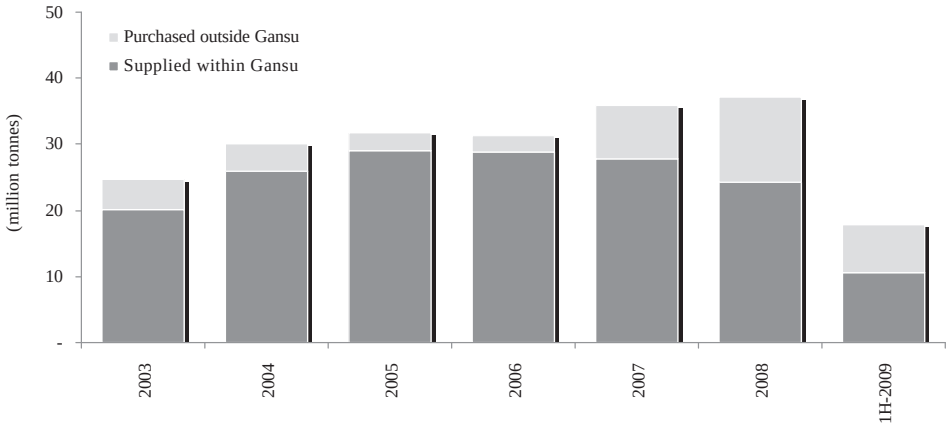
Inner Mongolia is a net consumer of coking coal and produces a relatively small amount of coking coal. Coking coal demand had been growing at a compound annual growth rate of 12.5% during the period 2003 to 2009 (annualised based on year-to-date June 2009 demand), while production had been growing at a slower rate of 8.4% during the same period. Consequently, Inner Mongolia had purchased coking coal from other provinces in China and from Mongolia, totalling 9 million tonnes in 2009 (annualised based on year-to-date June 2009 purchase). Fenwei forecasts Inner Mongolia coking coal purchases from other provinces in China and from Mongolia to reach approximately 19 million tonnes in 2010 and approximately 22 million tonnes in 2015.

Gansu Market Dynamics

Gansu's coal resources and production bases are located mainly in southeastern Gansu. Due to geographical and transportation capacity constraints, coal produced from this area is either consumed by nearby power plants or sold to neighboring provinces to the south and east.

Gansu's thermal coal production has been growing at a slower rate than the national average, at an annual rate of 3.7% from 29.1 million tonnes in 2003 to 36.3 million tonnes in 2009 (annualised based on year-to-date June 2009 production), while net supply of coal for Gansu's domestic consumption has been growing at a compound annual growth rate of 1.0% from 20.0 million tonnes in 2003 to 21.3 million tonnes in 2009 (annualised based on year-to-date June 2009 net supply), as most of the production is sold to other provinces. Thermal coal demand has been growing at a rate per annum of 1.5% over the same period, from 24.9 million tonnes in 2003 to 27.2 million tonnes in 2009 (annualised based on year-to-date June 2009 demand).

Gansu Thermal Coal Demand and Source of Supply



Source: Fenwei Report

This condition has created supply shortages in the western and central part of Gansu, where coal demand is currently met through purchases from Hami in Xinjiang, Qinghai and Mongolia. Thermal coal purchased from outside Gansu reached 14.3 million tonnes in 2009 (annualised based on year-to-date June 2009 purchases) from 4.7 million tonnes in 2003, representing a compound annual growth rate of 20.5%. The Ovoot Tolgoi Complex is one of the major coal production bases in closest proximity to the western and central part of Gansu.

Gansu Historical Thermal Coal Supply and Demand

	2003	2004	2005	2006	2007	2008	2009 YTD annualised	CAGR 2003-2009 YTD annualised
Coal production (million tonnes)	29.1	35.0	35.5	38.0	41.2	37.9	36.3	3.7%
Coal sold to southern and eastern provinces (million tonnes)	9.1	9.2	6.4	9.1	13.4	13.5	15.0	8.7%
Net supply in Gansu (million tonnes)	20.0	25.8	29.1	28.9	27.8	24.4	21.3	1.0%
Thermal coal demand (million tonnes)	24.9	26.6	25.8	27.0	29.6	31.1	27.2	1.5%
Shortages (million tonnes)	4.9	0.8	(3.2)	(1.8)	1.8	6.8	5.9	3.3%
Thermal coal purchase from outside Gansu (million tonnes)	4.7	4.3	2.7	2.5	8.1	12.8	14.3	20.5%

Source: Fenwei Report

Thermal coal demand growth in Gansu is primarily attributable to expansions in electricity generation. Gansu generated 67.8 billion kWh of electricity in 2008, up from 40.5 billion kWh in 2003. Electricity generated from coal fired power plants reached 46.6 billion kWh in 2008 and accounted for 68.7% of total electricity generated in Gansu in 2008.

Gansu Historical Electricity Generation

	2003	2004	2005	2006	2007	2008	CAGR 2003-2008
Total electricity generation (billion kWh)	40.5	45.5	50.6	56.6	61.8	67.8	10.9%
Coal fired electricity generation (billion kWh)	29.7	33.5	34.1	35.7	42.4	46.6	9.4%
% of coal fired to total electricity generation (%)	73.3%	73.5%	67.3%	63.0%	68.6%	68.7%	N/A

Source: Fenwei Report

On the basis of rapidly growing electricity generation, Fenwei has projected that thermal coal demand in Gansu will increase significantly in the next decade. Major power plant expansions in Gansu are either underway or planned in Jiuquan, Jiayuguan, Zhangye and Jinchang in the western and central parts of Gansu. The largest project is the Jiajiu Power Complex, with 16 power plants and total capacity of 13.6 gigawatts planned to be constructed and scheduled to gradually commence operations from 2011. Jiajiu Power Complex plans to use coal from Mongolia, Hami and Maanshan.

Major Power Plant Expansion in Western and Central Gansu (Installed Capacity)

	2008	2010F	2015F	2020F	CAGR 2008-2020F
Jiuquan and Jiayuguan (megawatts)	1,358	2,618	8,218	16,218	23.0%
Zhangye and Jinchang (megawatts)	2,099	2,699	4,019	4,019	5.6%
Total	**3,457**	**5,317**	**12,237**	**20,237**	**15.9%**
Forecast thermal coal usage (million tonnes)	6.6	11.9	30.7	50.7	18.6%

Source: Fenwei Report

According to Fenwei, total thermal coal demand in Gansu will reach approximately 70 million tonnes by 2015 and approximately 89 million tonnes by 2020. Increases in Gansu's coal production are mainly concentrated in the eastern area. Production capacity is expected to reach approximately 60 million tonnes by 2015 and approximately 90 million tonnes by 2020. However, most of the coal from this additional capacity is expected to be sold outside of Gansu, thereby creating significant supply shortfalls within Gansu. Fenwei forecasts that thermal coal supply shortage within Gansu will reach approximately 40 million tonnes by 2015 and approximately 54 million tonnes by 2020.

Gansu Forecast Thermal Coal Supply and Demand

	2009F	2010F	2015F	2020F	CAGR 2009F-2020F
Coal production (million tonnes)	38.0	42.0	60.0	90.0	8.2%
Coal sold to southern and eastern provinces (million tonnes)	15.0	18.0	30.0	55.0	12.5%
Net supply in Gansu (million tonnes)	23.0	24.0	30.0	35.0	3.9%
Thermal coal demand (million tonnes)	33.3	41.0	69.6	88.6	9.3%
Shortages (million tonnes)	10.4	17.0	39.7	53.7	16.1%
Thermal coal purchase from outside Gansu (million tonnes)	11.4	18.0	40.7	54.7	15.3%

Source: Fenwei Report

Gansu does not produce coking coal. All coking coal used in the steel industry in Gansu, is currently sourced from outside Gansu. Steel production in Gansu has been growing at a compound annual growth rate of 17.6% from 2.2 million tonnes in 2003 to 5.9 million tonnes in 2009 (annualised based on year-to-date June 2009 production). Consequently, coking coal demand has been growing at a compound annual growth rate of 19.2% from 2.0 million tonnes in 2003 to 5.7 million tonnes in 2009 (annualised based on year-to-date June 2009 demand).

Gansu Historical Coking Coal and Steel Production and Coking Coal Demand

	2003	2004	2005	2006	2007	2008	2009 YTD annualised	CAGR 2003-2009 YTD annualised
Coking coal production (million tonnes)	—	—	—	—	—	—	—	N/A
Coking coal demand (million tonnes)	2.0	2.2	3.7	4.3	5.3	6.2	5.7	19.2%
Balance (million tonnes)	(2.0)	(2.2)	(3.7)	(4.3)	(5.3)	(6.2)	(5.7)	N/A
Steel production (million tonnes)	2.2	2.8	4.6	5.5	6.0	4.8	5.9	17.6%

Source: Fenwei Report

Fenwei projects Gansu's coking coal demand to reach approximately 11 million tonnes in 2010 and approximately 13 million tonnes in 2015. As Gansu does not produce coking coal, coking coal is likely to be sourced from other provinces in China and from Mongolia to satisfy future demand.

Gansu Coal Transportation Infrastructure

There are currently two railways that connect coal producers to the Gansu market. The 452 kilometres Jiace Railway, which connects Jiayuguan in southern Gansu with the Shivee Khuren-Ceke Mongolian-Chinese border crossing. The first phase of the railway was completed in April 2006 with designed capacity of approximately 4 million tonnes per annum. The railway can be upgraded to 8 million tonnes per annum in the near future. Currently, there is significant spare capacity on this railway, with only 0.8 million tonnes of coal transported on this railway in 2008.

The 1,903 kilometres Lanxin Railway connects Urumqi in Xinjiang with Lanzhou in Gansu. The railway is used for both passenger and cargo purposes and transported approximately 9 million tonnes of coal in 2008. Construction is underway to build a dedicated passenger railway, which will enable the existing railway to be used exclusively for cargo and coal transport. It is expected that upon completion of the dedicated passenger railway in 2012, the Lanxin railway will have approximately 20 million tonnes per annum of coal transportation capacity.

Gansu coal supply shortages are currently met mainly by coal from Hami in Xinjiang, Qinghai and Mongolia. Whilst coal from Hami is relatively cheaper than Mongolian coal, the cost to transport coal from Hami to Jiayuguan in Gansu via railway was approximately RMB 130 per tonne in 2008, which is higher than the cost to transport Mongolian coal from the Shivee Khuren-Ceke Mongolian-Chinese border crossing to Jiayuguan via railway, which was RMB 90 per tonne.

Western Inner Mongolia Market Dynamics

At the end of 2006, Inner Mongolia had 289.3 billion tonnes of coal resources, of which 282.2 billion tonnes were thermal coal and the remaining 7.1 billion tonnes were coking coal.

Thermal coal production in Inner Mongolia has been growing at an annual rate of 25.6% from approximately 142 million tonnes in 2003 to approximately 560 million tonnes in 2009 (annualised based on year-to-date June 2009 production). Most of the thermal coal produced in Inner Mongolia is sold to other provinces. Inner Mongolia sold approximately 298 million tonnes of coal to other provinces in 2009 (annualised based on year-to-date June

2009 sales), which represented a significant increase from approximately 83 million tonnes in 2003 and reflects an annual growth rate of 23.8%.

Thermal coal demand in Inner Mongolia has been driven by electricity generation as Inner Mongolia is one of the key bases to supply China's west to east power transmission project. Coal fired power plants accounted for over 97% of total electricity generated in the region in 2008. Inner Mongolia recorded significant growth in electricity generated during 2003 to 2008, with output more than tripled from 64.8 billion kWh in 2003 to 207.2 billion kWh in 2008.

Inner Mongolia Historical Electricity Generation

	2003	2004	2005	2006	2007	2008	CAGR 2003-2008
Total electricity generation (billion kWh)	64.8	81.7	105.7	141.6	193.2	207.2	26.2%
Coal fired electricity generation (billion kWh)	63.5	80.7	104.5	139.5	179.1	201.2	25.9%
% coal fired to total electricity generation (%)	98.0%	98.8%	98.9%	98.5%	92.7%	97.1%	N/A

Source: Fenwei Report

As demand for electricity increases in other provinces, Inner Mongolia's power generation volume will continue to grow significantly. Inner Mongolia will have installed electricity generation capacity of approximately 52 gigawatts in 2009. According to Fenwei, by the end of 2020 the installed electricity generation capacity will increase to approximately 100 gigawatts. This is expected to support an increase in thermal coal demand for power generation, from approximately 140 million tonnes in 2009 to approximately 247 million tonnes in 2020.

Inner Mongolia Forecast Power Plant Capacity and Power Thermal Coal Demand

	2009F	2010F	2015F	2020F	CAGR 2009F-2020F
Total installed power plant capacity (gigawatts)	52.0	66.0	80.0	100.0	5.6%
Coal fired power plant capacity (gigawatts)	45.2	56.8	65.6	80.0	4.9%
Power thermal coal demand (million tonnes)	140.2	175.7	202.0	247.0	4.8%

Source: Fenwei Report

While Inner Mongolia is currently one of the largest coal producing provinces in China, most of its coal deposits are located in its eastern regions, therefore, its western regions including Alashan, Wuhai and Bayannao'er, have to source coal from other provinces in China or from South Gobi Province in Mongolia.

Alashan and Bayannao'er are located in the most western part of Inner Mongolia, and are closer to the Ovoot Tolgoi Complex than to other coal producing regions in Inner Mongolia. Wuhai, an important industrial city with a large concentration of coke producers and chemical companies, is located at the end of the existing northern coal railway system and has been experiencing capacity bottlenecks making it difficult to transport coal from eastern Inner Mongolia. This results in Wuhai having to purchase coal from other Chinese provinces and from Mongolia.

Thermal coal production and demand in Alashan, Wuhai and Bayannao'er were relatively balanced in 2008. However, as more power plants are expected to commence operations in the future, Fenwei forecasts significant supply shortage starting in 2010. According to Fenwei, net thermal coal supply shortage in Alashan, Wuhai and Bayannao'er will reach approximately 13 million tonnes in 2010 and 20 million tonnes by 2015.

Historical and Forecast Thermal Coal Supply and Demand in Alashan, Wuhai and Bayannao'er

Supply	2008	2010F	2015F	2020F	CAGR 2008-2020F
Alashan (million tonnes)	1.6	1.7	1.8	2.0	1.9%
Wuhai (million tonnes)	8.1	9.5	15.0	18.0	6.9%
Bayannao'er (million tonnes)	1.6	2.3	5.0	7.0	13.1%
Total supply (million tonnes)	11.3	13.5	21.8	27.0	7.5%
Demand					
Alashan (million tonnes)	0.4	0.4	2.1	2.1	14.8%
Wuhai (million tonnes)	7.7	15.9	19.8	19.8	8.2%
Bayannao'er (million tonnes)	3.4	9.8	20.2	20.2	16.0%
Total demand (million tonnes)	11.5	26.1	42.2	42.2	11.4%
Total supply shortage (million tonnes)	0.2	12.6	20.4	15.2	42.9%

Source: Fenwei Report

There are 23 new coal fired power plants with a total capacity of 9.4 gigawatts currently under construction or planned in these three regions, and are expected to come onstream during the period 2009 to 2015, significantly increasing thermal coal demand. These power plant expansions are the main driver behind the expected increase in thermal coal demand in these three regions from approximately 12 million tonnes in 2008 to approximately 42 million tonnes in 2020.

Major Power Plant Expansion in Key Target Markets in Western Inner Mongolia (Installed Capacity)

	2008	2010F	2015F	2020F	CAGR 2008-2020F
Alashan (megawatts)	148	148	748	748	14.5%
Wuhai (megawatts)	2,300	4,970	6,270	6,270	8.7%
Bayannao'er (megawatts)	1,800	3,600	5,400	6,600	11.4%
Total	4,248	8,718	12,418	13,618	10.2%
Forecast thermal coal usage (million tonnes)	11.6	24.5	38.5	38.5	10.5%

Inner Mongolia is a net consumer of coking coal and produces a relatively small amount of coking coal. The key driver of coking coal demand is the growth in steel production, which has more than doubled from 5.8 million tonnes in 2003 to 12.1 million tonnes in 2009 (annualised based on year-to-date June 2009 production). Coking coal production reached 11.2 million tonnes in 2009 (annualised based on year-to-date June 2009 production) from 6.9 million tonnes in 2003, evidencing a compound annual growth rate of 8.4%. During the same period, demand has been growing at a faster compound annual growth rate of 12.5% from 9.8 million tonnes in 2003 to 19.7 million tonnes in 2009 (annualised based on year-to-date June 2009 demand). Consequently, Inner Mongolia has purchased coking coal from other provinces in China and from Mongolia, totalling 9 million tonnes in 2009 (annualised based on year-to-date June 2009 purchases).

Inner Mongolia Historical Coking Coal and Steel Production and Coking Coal Demand

	2003	2004	2005	2006	2007	2008	2009 YTD annualised	CAGR 2003-2009 YTD annualised
Coal production (million tonnes)	6.9	6.6	7.9	6.4	8.8	9.2	11.2	8.4%
Coal sold to other provinces (million tonnes)	0.5	0.6	0.3	0.4	0.5	1.4	1.6	21.4%
Net supply in Inner Mongolia (million tonnes)	6.4	6.0	7.6	6.1	8.3	7.8	9.6	N/A
Coking coal demand (million tonnes)	9.8	11.8	15.9	16.0	16.9	15.9	19.7	12.5%
Shortages (million tonnes)	3.4	5.8	8.3	9.9	8.6	8.1	10.1	20.2%
Coking coal purchase from outside Inner Mongolia (million tonnes)	4.2	4.7	6.1	4.6	7.8	7.5	9.0	13.4%
Steel production (million tonnes)	5.8	6.3	8.1	8.6	10.4	12.1	12.1	13.1%

Source: Fenwei Report

According to Fenwei, coking coal demand in Inner Mongolia will reach approximately 29 million tonnes in 2010 and approximately 35 million tonnes in 2015, with production of approximately 10 million tonnes in 2010 and approximately 14 million tonnes in 2015. Supply shortages will reach approximately 22 million tonnes in 2015.

Inner Mongolia Forecast Coking Coal Production and Demand

	2009F	2010F	2015F	CAGR 2009F-2015F
Coal production (million tonnes)	9.4	9.9	13.8	6.6%
Coal sold to other provinces (million tonnes)	1.3	1.0	0.8	(7.8%)
Net supply in Inner Mongolia (million tonnes)	8.1	8.9	13.0	8.2%
Coking coal demand (million tonnes)	22.5	29.4	35.4	7.8%
Shortages (million tonnes)	14.4	20.5	22.4	7.6%
Coking coal purchase from outside Inner Mongolia (million tonnes)	13.1	19.5	21.6	8.7%

Source: Fenwei Report

Accordingly, Fenwei forecasts Inner Mongolia coking coal purchases from other provinces in China and from Mongolia to reach approximately 19 million tonnes in 2010 and approximately 22 million tonnes in 2015.

Western Inner Mongolia Coal Transportation Infrastructure

Currently, the main railway system in Western Inner Mongolia is the Baolan Railway, which is a shared passenger and cargo railway connecting Baotou and Lanzhou. The Baolan railway transports coal from Ningxia to Wuhai and Bayannao'er. Due to bottlenecks in the railway system, only 3.6 million tonnes of coal were transported through this railway from Ningxia to Wuhai and Bayannao'er, with the remaining coal demand being met by coal transported via road from Erdos.

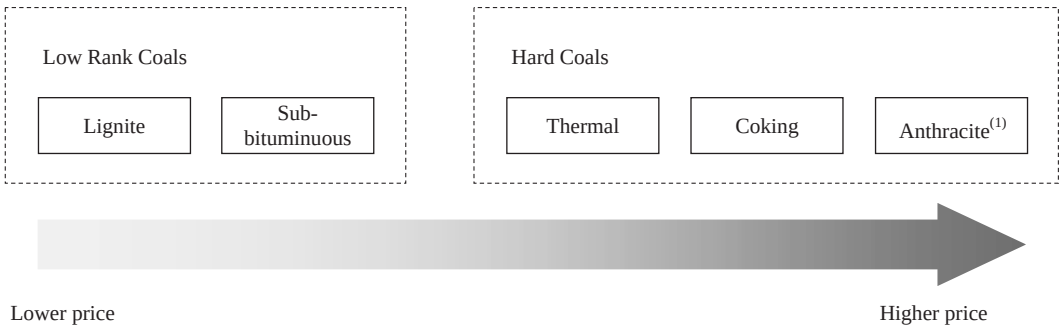
The Lince Railway is currently under construction. The 708 kilometres railway will connect Linhe district in Inner Mongolia with the Shivee Khuren-Ceke Mongolian-Chinese border crossing. Upon completion, the Lince railway will have capacity to transport approximately 20 million tonnes of coal in 2011.

COAL PRICING

Relative Pricing of Various Coal Types

Coal is classified as a bulk commodity commonly traded by contract. Given this contractual nature of coal trade, the spot market for coal is relatively small. Thermal coal prices are dependent on the energy level of the coal, while coking coal prices are dependent on the coking characteristics of the coal. The following diagram describes the scale of the prices of various types of coal.

Benchmark coal prices



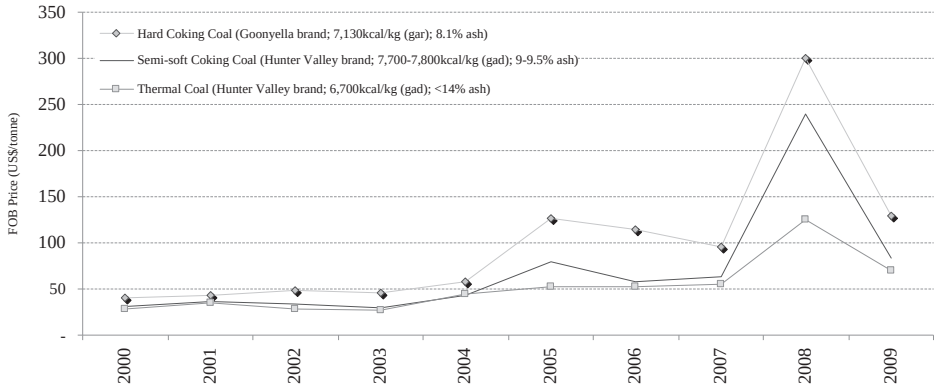
Note:

(1) While anthracite has the highest carbon content and contains the fewest impurities of all coals, it has lower energy content than many coking coals and, subject to market forces, can trade at lower prices than coking coal.

Global Coal Pricing

Globally, coal export contract negotiations are held annually to establish the benchmark prices for the respective coal types. Coking coal is typically priced at a notable premium to thermal coal.

Australia to Japan Coal Annual Contract — Benchmark FOB Price



Source: AME

Notes:

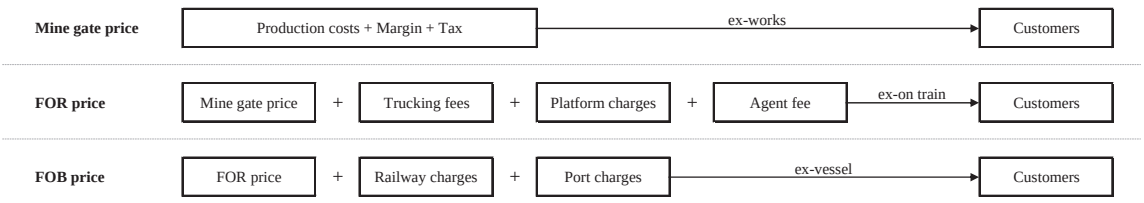
(1) The historical prices above are compiled from publicly announced sales contracts between Australian producers and Japanese customers amongst other data sources.

(2) Quality of coal for each sales contract varies and the historical prices above are for the typical brand and coal specifications stated.

PRC Coal Pricing

There are three common coal pricing mechanisms in China: mine gate (also called mine mouth), free-on-rail ("FOR") and free-on-board ("FOB"). Mine gate price refers to the sales price of coal sold at the producing mines. FOR price refers to the sales when the coal is loaded onto trains which is mainly impacted by the mine gate price, freight charges (usually short-distance trucking), platform fee and agent fee. FOB price refers to the price of coal loaded onto ships for export markets.

China Coal Pricing Flow

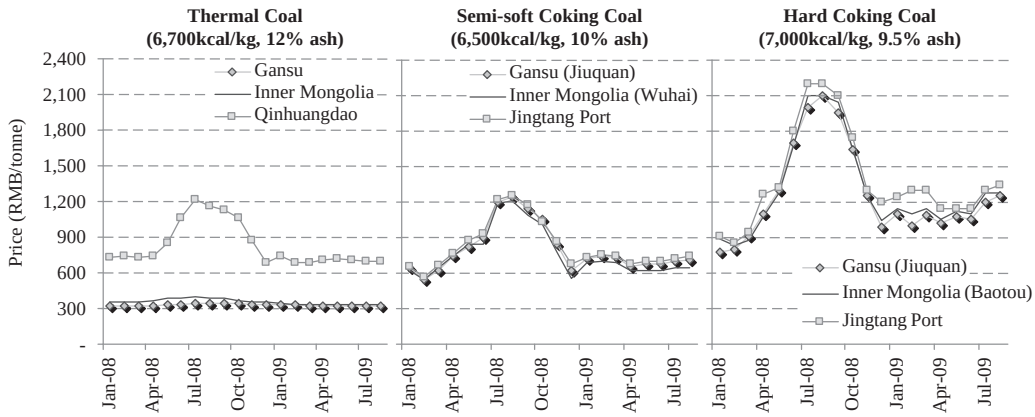


Source: Fenwei Report

In China, the price of thermal coal is primarily determined by the energy content, and affected by sulphur content and volatile matter levels. Generally, when the sulphur content and the volatile matter level are within the acceptable range, thermal coal with higher energy content commands a higher price.

The FOB coal price at the Qinhuangdao Port for China's thermal coal price is referred to as Datong premium blend and it acts as a China benchmark price. In general, coal with energy content above 6,000 kcal/kg is classified as Datong premium blend, although it is not necessarily produced in Datong. Qinhuangdao's thermal coal is traded at a premium to thermal coal sold in Gansu and Inner Mongolia Provinces.

Qinhuangdao, Gansu and Inner Mongolia Historical Coal Prices



Source: Fenwei Report

Gansu and Inner Mongolia Coal Pricing

Thermal coal prices in Gansu are lower than the national average. The price for 6,700 kcal/kg quality thermal coal in Gansu averaged RMB 333 per tonne in 2008, with a peak of RMB 347 per tonne recorded in July and August 2008. The price in August 2009 was at RMB 317 per tonne level. Prices for semi-soft coking coal and hard coking coal in Jiuquan in Gansu averaged RMB 868 per tonne and RMB 1,379 per tonne, respectively, in 2008. During August 2009, prices of semi-soft coking coal and hard coking coal were RMB 710 per tonne and RMB 1,260 per tonne, respectively.

The price for 6,700 kcal/kg quality thermal coal in Inner Mongolia averaged RMB 371 per tonne in 2008, with a peak level of RMB 396 per tonne in July 2008. During August 2009, the price averaged at RMB 329 per tonne. Prices for semi-soft coking coal and hard coking coal in Baotou in Inner Mongolia averaged RMB 840 per tonne and RMB 1,403 per tonne, respectively, in 2008. During August 2009, prices of semi-soft coking coal and hard coking coal were RMB 646 per tonne and RMB 1,280 per tonne, respectively.

Historically, thermal coal prices are more stable than coking coal prices in Gansu and Inner Mongolia. This is because Gansu and Inner Mongolia are net producers of thermal coals, some of which is consumed locally. As such, prices for thermal coal are less affected by global market conditions. Furthermore, prices for thermal coal in Gansu and Inner Mongolia are usually fixed through long-term contracts between producers and customers. In contrast, Gansu and Inner Mongolia purchase coking coal from other provinces or import coking coal from other countries to meet local demand. Therefore, prices of coking coal in Gansu and Inner Mongolia are market-oriented and are subject to fluctuations in steel and coke production.

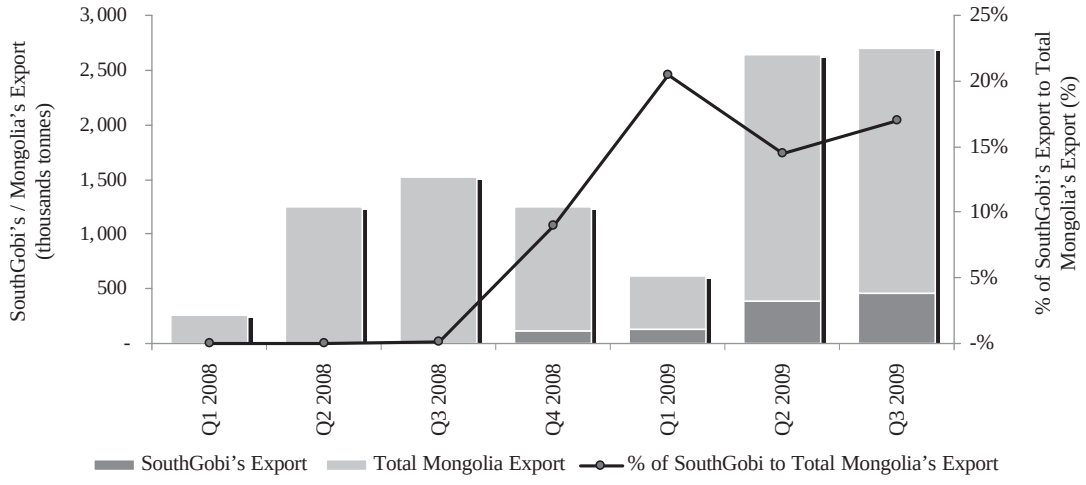
MONGOLIAN COAL INDUSTRY OVERVIEW

Mongolia has extensive undeveloped coal resources. The Mongolian Government has been seeking international expressions of interest to explore and develop resources in the country. However, development of the sector has been constrained by a lack of basic infrastructure.

According to the National Statistical Office of Mongolia, Mongolia produced 9.7 million tonnes of coal in 2008, an increase of 9.9% from 8.8 million tonnes of coal produced in 2007, while 2009 annualised production (based on year-to-date October 2009 production) amounted to 9.9 million tonnes.

Mongolia's coal export has grown significantly since 2007. Mongolia exported 4.2 million tonnes of coal in 2008, an increase of 27.5% from 3.3 million tonnes of coal exported in 2007. Coal export statistics for the first ten months of 2009 has shown a continued trend of strong export growth, with 5.5 million tonnes of coal exported during the ten month period, implying 2009 annualised exports of 6.6 million tonnes.

Historical Quarterly Mongolian Coal Export



Source: National Statistical Office of Mongolia, SouthGobi's financial statements

The Company is not aware of any available data that can be used to analyse transportation cost trends in Mongolia.

SOURCE OF INFORMATION

Fenwei Report

Fenwei, an experienced consultant in the energy sector in China, has been engaged to provide the Fenwei Report for use in whole or in part in this prospectus.

Fenwei prepared its report based on Fenwei's in-house database, independent third-party reports and publicly available data from reputable industry organisations. Where necessary, Fenwei visits companies operating in the industry to gather and synthesize information about market, prices and other relevant information. The information contained herein has been obtained from sources believed by Fenwei to be reliable, but there can be no assurance as to the accuracy or completeness of included information.

Forecasts and assumptions included in the Fenwei Report are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including, without limitation, the actions of government, individuals, third parties and competitors. Specific factors that could cause actual results to differ materially include, among others, coal prices, risks inherent in the mining industry, financing risks, labour risks, uncertainty of mineral reserve and resource estimates, equipment and supply risks, regulatory risks and environmental concerns.

This prospectus contains information extracted from the Fenwei Report in sections such as "Industry Overview" and "Business".

We paid Fenwei a total of RMB80,000 in fees for the preparation and update of the Fenwei Report.