

**SOUTHGOBI RESOURCES LTD:
THE FINANCIAL SITUATION IN THIS COMPANY
MUST, NOW, BE CONSIDERED AS BEING DIRE**

**The Company Is Likened
To Be On The Bones Of Its Arse**

The former Chairman of SouthGobi Resources Ltd () (Code: 1878, Main Board, The Stock Exchange of Hongkong Ltd) has issued proceedings in the High Court of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), claiming \$HK4.68 million from a wholly owned subsidiary of the publicly listed company, in which he held the highest executive position for a period of about two years.

He is Mr Li Ning Qiao (), who stepped down as Chairman of SouthGobi Resources Ltd on or about June of 2017, according to the database of **TOLFIN** (), the Computerised, Online Financial Intelligence Service and Web-Based, Credit-Checking Provider.

In High Court Action, Number 2623 of 2018, Mr Li Ning Qiao (), as Plaintiff, sued SouthGobi Resources (Hongkong) Ltd ([]), a wholly owned subsidiary of SouthGobi Resources Ltd, not the parent company.

The Writ of Summons, a Statement of Claim attached, was filed in the HKSAR High Court on Wednesday, November 7, 2018.

But, on September 20, 2018, a wholly owned subsidiary of SouthGobi Resources Ltd, namely Inner

Mongolia SouthGobi Energy Company Ltd (), was sued for 19.40 million renminbi (about US\$2.80 million) in relation to a purported ‘dispute over certain coal sales contracts with Jiayuguan Xiyuan Trading Company Ltd ()’, a former customer of Inner Mongolia SouthGobi Energy Company Ltd.

In respect of this earlier case, the Company made the following announcement, the heading of which, being ‘**Legal proceedings involving a subsidiary of the Company**’.

The announcement stated, inter alia:

*‘The Company announces that Inner Mongolia SouthGobi Energy Co., Ltd. (“**IMSGE**”), a subsidiary of the Company, has received a court summons (the “**Summons**”) from the Ejinaqi People’s Court of Inner Mongolia Autonomous Region of China (the “Ejinaqi Court”) dated September 13, 2018 in relation to a dispute over certain coal sales contracts with Jiayuguan Xiyuan Trading Co., Ltd. (“**Xiyuan**”), a former customer of IMSGE.*

‘According to the Summons, Xiyuan has applied to the Ejinaqi Court claiming that IMSGE should repay a sum of RMB 19.4 million (or approximately USD \$2.8 million) to Xiyuan, comprised of RMB 19.1 million of coal prepayments and RMB 0.3 million of interest. Xiyuan also claimed Ejinaqi Fulemeng Energy Industry Co., Ltd. () for joint liability of the above sums as it was alleged as an agent for IMSGE to receive coal prepayment and deliver coal on behalf of IMSGE.

‘A court hearing has been scheduled on October 10, 2018 regarding this matter.

‘The Company firmly believes that it has a strong defense on the merits and will retain independent Chinese litigation counsel to vigorously defend itself against these claims. However, due to the inherent uncertainties of litigation, it is not possible to predict whether IMSGE will be successful in defending itself in these proceedings.

‘The Company will provide further updates on the status of this matter as appropriate.’

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