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(Hong Kong Stock Code: 1878)  
(Toronto Stock Code: SGQ)

## **Fulfilment of resumption guidance and trading resumption on the Hong Kong Stock Exchange and Toronto Stock Exchange**

SouthGobi Resources Ltd. (the “**Company**”) is pleased to announce that, further to its press release dated January 8, 2019 in which the Company announced the trading resumption guidance (“**Resumption Guidance**”) provided by the Hong Kong Stock Exchange (“**HKEX**”), the Company has fulfilled the Resumption Guidance to the satisfaction of the HKEX, and the HKEX and the Toronto Stock Exchange (“**TSX**”) have accepted the Company’s trading resumption application. Trading in the common shares of the Company on the TSX will resume effective as of 9:00 a.m. (Toronto time) before the opening of trading on May 30, 2019, and trading in the common shares of the Company on the HKEX will resume effective as of 9:00 a.m. (Hong Kong time) before the opening of trading on May 31, 2019.

### **Background of Resumption Guidance**

Trading in the common shares of the Company has been suspended on the HKEX and the TSX since December 17, 2018. As disclosed in the Company’s press release dated January 8, 2019, the HKEX imposed the Resumption Guidance in order for trading to resume in the common shares of the Company, pursuant to which the Company is to:

- (i) conduct a forensic investigation (the “**Formal Investigation**”) of the past conduct (the “**Suspicious Transactions**”) engaged in by former senior executive officers and employees of the Company (the “**Former Management and Employees**”) which raised suspicions of serious fraud, misappropriation of Company assets and other criminal acts by the Former Management and Employees relating to transactions between 2016 and the first half of 2018

*\*For identification purposes only*

involving the Company, Inner Mongolia SouthGobi Energy Co., Ltd. (a subsidiary of the Company) and certain coal trading and transportation companies, some of which are allegedly related to or controlled by the Former Management and Employees or their related persons (the “**First Resumption Guidance**”);

(ii) disclose the findings of the Formal Investigation and take appropriate remedial actions (the “**Second Resumption Guidance**”); and

(iii) inform the market of all material information for its shareholders and investors to appraise the Company’s position (the “**Third Resumption Guidance**”).

### **Fulfillment of Resumption Guidance**

The Company is pleased to announce that, as of the date hereof, the Resumption Guidance has been fulfilled, details of which are set out below.

#### ***The First Resumption Guidance***

As disclosed in its press release dated December 15, 2018, the Company expanded the mandate of the special committee of independent non-executive directors of the Company (the “**Special Committee**”) to conduct a formal investigation into the conduct of the Suspicious Transactions, the implicated Former Management and Employees, and the impact of such conduct, if any, on the business and affairs of the Company. As disclosed in its press releases dated March 15, 2019 and March 30, 2019, the Special Committee engaged Ernst & Young (China) Advisory Limited (the “**Independent Forensic Accountant**”) as forensic investigator in January 2019 to oversee the Formal Investigation. The Special Committee also engaged Blake, Cassels & Graydon LLP, as independent Canadian legal counsel, and Zhong Lun Law Firm, as independent Chinese legal counsel, to assist in the Formal Investigation and to conduct a review of the Company’s applicable policies and procedures from the perspectives of both Canadian and PRC law.

The Formal Investigation concentrated on the following areas of focus (the “**Areas of Focus**”): (i) the arrangements of the Suspicious Transactions; (ii) the relationships between the Former Management and Employees and certain coal trading and transportation companies; (iii) any unidentified questionable transactions relating to the Former Management and Employees; and (iv) the potential impact of (i), (ii) and (iii) on the financial statements of the Company and its subsidiaries. During the course of the Formal Investigation, certain incomplete accounting/operational records of one of the companies under investigation (“**Company A**”) were identified in Company employee computers. As

a result, the Special Committee expanded the scope of the Area of Focus of the Formal Investigation to include: (i) a fund flow analysis of Company A; and (ii) a price analysis of the difference between Company A's purchase prices from the Company and selling prices to downstream customers.

The Special Committee concluded the Formal Investigation and delivered a final report summarizing its key findings to the board of directors of the Company (the "**Board**"), as detailed in the Company's press release dated March 30, 2019.

In light of the above, the Company is of the view that the First Resumption Guidance has been fulfilled.

### ***The Second Resumption Guidance***

Based on the Areas of Focus, the Special Committee examined and made findings in respect of a number of matters in connection with the Formal Investigation, including the following: (i) allegations that Mr. Aminbuhe, the Company's former Chairman and Chief Executive Officer, controlled certain companies with which the Company had business dealings; (ii) uncollectable receivables from certain former customers and suppliers of the Company; (iii) the impact of the lawsuit filed by Jiayuguan Xiyuan Trading Co., Ltd.; and (iv) allegations of misconduct by the Former Management and Employees, including: (I) the grant of a RMB5 million loan; (II) embezzlement of bank acceptance bills of RMB12 million; (III) endorsement of commercial acceptance bills of RMB71 million which were not supported by genuine commercial transactions; (IV) prepayments of RMB8.5 million for coal transportation services which were never received by the Company; and (V) prepayment of RMB16.4 million for coal transportation services which were never received by the Company. A summary of the material findings of the Special Committee in respect of the Suspicious Transactions that were investigated pursuant to the Formal Investigation is disclosed in the Company's press release dated March 30, 2019.

Based on the information obtained from the Formal Investigation, the Special Committee concluded that four matters examined in connection with the Formal Investigation, having an aggregate value of approximately RMB41 million, involved improper conduct, fraud or misappropriation of assets (the "**Fraudulent Transactions**") and that one matter examined in connection with the Formal Investigation, having an aggregate value of approximately RMB71 million, involved an accounting reclassification error. From an accounting perspective, the Company does not anticipate that the Fraudulent Transactions will have any impact on its financial statements (the "**Financial Statements**") in the future as the Company has already recorded the appropriate provisions in the Financial Statements as at December 31, 2018, 2017 and 2016 and for the years then ended. Based on the key findings of and information obtained from the Formal Investigation, the Company considered the

resulting financial impact on the Financial Statements and determined that a restatement of prior period financial information was required, details of which were disclosed in the Company's press release dated March 30, 2019.

On March 31, 2019, the Company announced its annual results for the financial year ended December 31, 2018. The Company's annual financial statements for the year ended December 31, 2018 were audited by the Company's independent external auditor, who expressed an unqualified opinion on such financial statements.

As disclosed in the Company's press release dated April 30, 2019, the Special Committee, with the assistance of the Independent Forensic Accountant, completed its assessment of the potential remedial actions and preventative measures to improve and strengthen the Company's commitment to a culture of honesty, integrity and accountability and compliance with the highest standards of professional and ethical conduct and delivered its report setting out a set of recommended remedial actions and preventative measures (the "**Remedial Actions and Preventative Measures**") to the Board, which was approved at a meeting held on April 28, 2019.

The Remedial Actions and Preventative Measures are intended to remediate the incidents identified in the Formal Investigation and address deficiencies in the implementation of the Company's existing practices and procedures. Issues identified of note for the purposes of such remediation include a lack of preventative measures to avoid conflicts of interests, the need for additional employee oversight and the need to enhance compliance with accounting protocols and documentation retention. As announced its press release dated April 30, 2019, the Company had already taken proactive steps to address some of the issues raised by the Formal Investigation, including but not limited to: ceasing business activities with companies allegedly controlled by the Company's former management, taking steps to defend claims by third parties attempting to link the Company to the aforementioned companies, and considering whether legal recourse, such as collection actions, can be taken in respect of certain matters.

The following is a summary of the Remedial Actions and Preventative Measures which were adopted and approved by the Board and the actions that the Company has taken, or will be taking, to implement the Remedial Actions and Preventative Measures:

<b>Remedial Actions and Preventative Measures</b>	<b>Actions by the Company</b>
<p>Enhance the Company's anti-fraud program, including establishing an internal audit function, conducting routine internal audits and developing a communication and training program for employees to effectively establish a culture of compliance within the Company, ensure existing policies (such as the whistleblower policy) work effectively and support the implementation of the Remedial Actions and Preventative Measures</p>	<p>The Company has established a new internal audit function which will report directly to the Audit Committee on a regular basis. The Company has hired a full-time internal auditor to oversee the Company's internal audit function. The internal auditor will be responsible for designing and implementing an internal audit program for the Company which will include routine internal audits and risk assessments of the Company's existing anti-fraud program and other internal controls and procedures.</p>
<p>Enhance "know your customer" procedures relating to the intake of new customers and/or granting of credit to customers</p>	<p>The Company has implemented improvements to its customer credit approval procedures, which includes enhanced customer due diligence procedures and a stricter credit-approval process which requires that all credit sales be subject to pre-approval by the Board. The Company will also conduct quarterly reviews of the Company's existing credit terms. Management has also taken proactive steps to convey to all employees the importance of adhering to strict customer credit approval controls and procedures.</p>
<p>Enhance vendor due diligence and monitoring processes to screen third parties</p>	<p>The Company has introduced enhanced vendor due diligence requirements that must be satisfied before a new supplier or service provider with a contract that exceeds a pre-established monetary threshold can be added to the pre-approved list. The Company has also established procedures to periodically review the terms of existing contracts with suppliers or service providers that exceed a pre-established monetary threshold and the Company's list of pre-approved suppliers and service providers. The Company is in the process</p>

Remedial Actions and Preventative Measures	Actions by the Company
	of reviewing all existing vendors and will establish a pre-approved list of vendors with which the Company is authorized to transact.
Formalize a process to perform routine reconciliation of balances with customers and/or suppliers on a regular basis	The Company has implemented improvements to its controls, policies and guidelines relating to the reconciliation of balances with customers, suppliers and services providers to ensure that proper records are maintained and routinely reconciled.
Enhance the Company's Financial Delegation of Authority document relating to payment authorization and contract approval processes	The Company has made enhancements to its Financial Delegation of Authority policy by introducing enhanced due diligence requirements and review procedures if a proposed transaction exceeds certain pre-established monetary thresholds.
Enhance controls around the use of commercial bills	The Company has strengthened its controls and processes in connection with cash advances, offset arrangements and the use or acceptance of commercial acceptance bills or other similar monetary instruments as a method of payment, including improved pre-approval procedures and review processes to ensure such monetary instruments are supported by genuine commercial transactions.
Introduce segregation of duties in relation to offset arrangements to mitigate the risk of collusion which is detrimental to the Company	The Company has strengthened its controls and processes in connection with offset arrangements with different counterparties, including requirements to consult legal counsel in advance of entering into such arrangements, document the business rationale and obtain pre-approval of such arrangements from management.
Enhance the standardization of human resources process and controls across different locations	The Company has standardized its human resources policies and procedures relating to

Remedial Actions and Preventative Measures	Actions by the Company
	employee hiring and termination and data retention requirements.
Ensure IT back up and document retention protocols, including employee return of Company-issued devices and subsequent archiving	The Company has improved its policies and procedures relating to data retention requirements and use of computer and telecommunication devices and the establishment of formal data retention protocols and systems.
Monitor the implementation of the Remedial Actions and Preventative Measures by establishing a special task force, comprised of managers of the Company's various business units and members of the internal audit function, which will be tasked with this responsibility, and will consider the engagement of third party experts to conduct a review of the results of the implementation and advise on further enhancements if necessary	The Company has appointed the Independent Forensic Accountant to assist management with the implementation of the Remedial Actions and Preventative Measures, to conduct an independent review of the implementation results and, based on the implementation results, to advise the Company on further enhancements to its internal controls and procedures if required. The Company's internal auditor will be responsible for carrying out independent testing of the Remedial Actions and Preventative Measures implemented.

Based on the Remedial Actions and Preventative Measures that have been implemented, the Board is of the view that the Company now has in place robust internal controls and procedures which are adequate to prevent future occurrence of the issues which caused the suspension of trading in the Company's common shares. In addition, the Company has developed a training program for employees to support the implementation of the Remedial Actions and Preventative Measures.

In light of the above, the Company is of the view that the Second Resumption Guidance has been fulfilled.

### ***The Third Resumption Guidance***

The Company has published announcements from time to time in compliance with the HKEX's Listing Rules and the requirements to disclose inside information under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**") in order to keep shareholders and potential investors apprised of the Company's status and latest developments relating to the Resumption Guidance, including, but not limited to, the Company's progress in fulfilling the Resumption Guidance, the findings of the Formal Investigation, the Remedial Actions and Preventative Measures adopted and approved by the Board and the actions that the Company has taken, or will be taking, to implement the Remedial Actions and Preventative Measures. Having made such enquiry with respect to the Company as is reasonable in the circumstances, the members of the Board consider that, to the best of their knowledge, save as disclosed in this press release and other announcements previously made by the Company, there is no other material information that needs to be disclosed and brought to the attention of shareholders and potential investors in connection with the Resumption Guidance as at the date of this press release.

In light of the above, the Company is of the view that the Third Resumption Guidance has been fulfilled.

### **Resumption of Trading**

Trading in the common shares of the Company has been suspended on the HKEX and the TSX since December 17, 2018. As the Resumption Guidance has now been fulfilled, the HKEX and TSX have accepted the Company's trading resumption application. Trading in the common shares of the Company on the TSX will resume effective as of 9:00 a.m. (Toronto time) before the opening of trading on May 30, 2019, and trading in the common shares of the Company on the HKEX will resume effective as of 9:00 a.m. (Hong Kong time) before the opening of trading on May 31, 2019.

## **Forward-Looking Statements**

Certain information included in this news release that is not current or historical factual information constitutes forward-looking statements or information within the meaning of applicable securities laws (collectively, “forward-looking statements”), including the implementation of the Remedial Actions and Preventative Measures and the resumption of trading of the Company’s common shares on the HKEX and the TSX. Forward-looking statements are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “could”, “should”, “seek”, “likely”, “estimate” and other similar words or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on certain factors and assumptions including, among other things, the Company’s ability to implement the Remedial Actions and Preventative Measures in a timely manner, the effectiveness of the Remedial Actions and Preventative Measures in addressing the issues which caused the Trading Suspension and other similar factors that may cause actual results to differ materially from what the Company currently expects. Actual results may vary from the forward-looking statements. Readers are cautioned not to place undue importance on forward-looking statements, which speaks only as of the date of this disclosure, and should not rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to, update or revise any forward-looking statements, whether as a result of new information, further events or otherwise at any particular time, except as required by law. Additional information concerning factors that may cause actual results to materially differ from those in such forward-looking statements is contained in the Company’s filings with Canadian securities regulatory authorities and can be found under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

If there is any inconsistency or discrepancy between the English version and the Chinese version, the English version shall prevail.

By order of the Board

**SouthGobi Resources Ltd.**

**Mao Sun**

*Interim Independent Lead Director*

Vancouver, May 30, 2019

Hong Kong, May 30, 2019

*As at the date of this announcement, the executive director of the Company is Mr. Shougao Wang; the independent non-executive directors are Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan; and the non-executive directors are Messrs. Wen Yao, Zhiwei Chen, Xiaoxiao Li and Ms. Lan Cheng.*