

Henan Zhongyuan Gold Smelter LLC

LBMA Responsible Gold Guidance Compliance

Independent Limited Assurance Report

The year ended 31 December 2018

Independent Limited Assurance Report to Henan Zhongyuan Gold Smelter LLC

We were engaged by Henan Zhongyuan Gold Smelter LLC ("Zhongyuan Smelter") to provide limited assurance on its LBMA Refiner's Compliance Report for the year ended 31 December 2018.

The assurance scope consists of the Refiner's Compliance Report.

Responsibilities

The directors of Zhongyuan Smelter are responsible for the preparation and presentation of the Refiner's Compliance Report in accordance with the *LBMA Responsible Gold Guidance* (the *Guidance*). This responsibility includes establishing appropriate risk management and internal controls from which the reported information is derived. The criteria identified by the directors as relevant for demonstrating compliance with the *Guidance* are the activities described within the Refiner's Compliance Report.

Our responsibility is to carry out a limited assurance engagement in order to express a conclusion based on the work performed. We conducted our assurance engagement in accordance with International Standard on Assurance Engagements *ISAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board and the guidance set out in the *LBMA Responsible Gold Programme - Third Party Audit Guidance for ISAE 3000 Auditors (the Audit Guidance)*.

The extent of evidence-gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

This report has been prepared for Zhongyuan Smelter for the purpose of assisting the directors in determining whether Zhongyuan Smelter has complied with the *Guidance* and for no other purpose. Our assurance report is made solely to Zhongyuan Smelter in accordance with the terms of our engagement. We do not accept or assume responsibility to anyone other than Zhongyuan Smelter for our work, or for the conclusions we have reached in the assurance report.

Limited assurance procedures performed

We planned and performed our work to obtain all the evidence, information and explanations considered necessary in relation to the above scope. These procedures included:

Enquiries of management to gain an understanding of Zhongyuan Smelter's processes and risk management protocols in place

Enquiries of relevant staff responsible for the preparation of the Report

Site visits to the Refiner

Assessing the suitability of the policies, procedures and internal controls that the Zhongyuan Smelter has in place to conform to the *Guidance*

Review of a selection of the supporting documentation, including gold supplier counterparty due diligence file and transaction's documentation

Test a selection of the underlying processes and controls that support the information in the Report

Review of the presentation of the Report to ensure consistency with our findings

Inherent limitations

Non-financial information, such as that included in the Refiner's Compliance Report, is subject to more inherent limitations than financial information, given the more qualitative characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques that can result in materially different measurements and can impact comparability. The methods used by refiners to comply with the *Guidance* may differ. It is important to read the Zhongyuan Smelter's gold supply chain policy which can be reached from the contact of Zhongyuan Smelter.

Independence and competency statement

In conducting our engagement, we have complied with the applicable requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants.

In conducting our engagement, we confirm that we satisfy the criteria for assurance providers as set out in the Audit Guidance to carry out the assurance engagement.

Conclusion

Based on the limited assurance procedures performed, as described above, nothing has come to our attention that would lead us to believe that Zhongyuan Smelter's Refiner's Compliance Report for the year ended 31 December 2018, did not in all material respects, describe fairly the activities undertaken during the year to demonstrate compliance, and management's overall conclusion contained therein, is not in accordance with the requirements of the *LBMA Responsible Gold Guidance*.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
Deloitte Touche Tohmatsu Certified Public Accountants LLP

21 March 2019

Beijing, the People's Republic of China

**Henan Zhongyuan Gold Smelter
LLC
RGG Compliance Report
(Year 2018)**

**Henan Zhongyuan Gold Smelter LLC
2019.3.21**

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<LBMA Responsible Gold Guidance> (hereinafter referred to as LBMA RGG) has been established for Good Delivery Refiners to adopt high standards of due diligence in order to combat systematic or widespread abuses of human rights, to avoid the contribution of conflict and to comply with high standards of anti-money laundering and combating terrorist financing practice.

This report summarised how Henan Zhongyuan Gold Smelter LLC has complied with the requirements of LBMA RGG for the year ended of Dec 31st, 2018.

Table1: Refiner's details

Refiner's name: Henan Zhongyuan Gold Smelter LLC

Location: China National Highway 209 South, Industry Cluster District, Sanmenxia City, Henan, China

Reporting year-end: 31/12/2018

Date of report: 21/03/2019

Senior management responsible for this report: Peng, Guomin (Board Chairman)

Contact information: Tel: +86-0398-2756698 E-mail: 277407501@qq.com

Refiner's evaluation

Henan Zhongyuan Gold Smelter LLC (Hereinafter referred to as Zhongyuan Smelter) is a well-known enterprise specialised in gold smelting and refining. It is one of the key enterprises of Zhongjin Gold Co., LTD (Hereinafter referred to as Zhongjin Gold) as well as of Sanmenxia, Henan province.

In 2015, Zhongyuan Smelter integrally moved to Industry Cluster District of Sanmenxia City and covers an area of 1,474,764 square metres (1,165,485 square metres larger than it was in 2014). The registered capital was increased to 1.5 billion China Yuan (1 billion China Yuan more than it was in 2014). The annual processing amount of ore is 1.41 million tons, the annual processing amount of recycled gold is 54.11 tons and the annual production capacities of gold, silver, sulfuric acid are 72.98 tons, 283.80 tons, and 1.33 million tons respectively. Gold from mined gold accounts for 18.87 tons of gross gold produced and that from recycled gold is 54.11 tons.

Zhongyuan Smelter now has 8 production workshops namely the Raw Materials, Smelting, Electrolysis, Slag Beneficiation, Refine, Acid-making, Power and Water Treatment and 23 functional and production-assisted departments. Zhongyuan Smelter's main business comprises gold and its by-products (including silver, cathode copper, copper powder, lead powder, sulphur powder, sulphuric acid) refining and sales; acquisition and storage of raw material and equipment of gold production; the R&D and consulting services of gold production technology; acquisition, production, processing and marketing of non-standard gold, gold and silver and its products, jewellery, crafts (heritage excepted); technology and goods import and export business, etc.

Zhongyuan Smelter obtained the current certificates under the GB/T 19001-2008/ISO 9001:2008 Quality Management Standard, the GB/T 24001-2004/ISO 14001:2004 Environment Management Standard, and the GB/T 28001-2001/OHSAS 18001:2007 Occupational Health and Safety Management Standard in 2014. These three standards cover products and process of gold ingots, silver ingots, sulphuric acid, copper cathode, iron oxide pigments, ammonium sulphate and its by-product of lead. The certificates of GB/T 19001-2008/ISO 9001:2008 Quality Management Standard and GB/T 24001-2004/ISO 14001:2004 Environment Management Standard are valid till Sep. 2018. The GB/T 28001-2001/OHSAS 18001:2007 Occupational Health and Safety Management Standard were renewed on Jan. 18th, 2017. The certificates of GB/T 19001-2016/ISO 9001:2015 Quality Management Standard and GB/T 24001-2016/ISO 14001:2015 Environment Management Standard were renewed on Sep. 15th, 2018. The three certificates are valid until Mar. 5th, 2020.

Zhongyuan Smelter is the subsidiary of Zhongjin Gold, an A-share listed company in China. As a part of listed company, Zhongyuan Smelter has to comply with Chinese listed companies internal control regulation <The Basic Standard for Enterprise Internal Control> and Supporting Guidance and complete annual internal control self-assessment and report. Controls over procurement process are specified in <The Basic Standard for Enterprise Internal Control> and the Supporting Guidance, requiring

enterprises to set up a scientific system of supplier evaluation to formalise qualified supplier list and to evaluate suppliers comprehensively.

Table2: Summary of activities undertaken to demonstrate compliance

Step 1: Establish strong company management systems

Compliance Statement with Requirement:

We have fully complied with Step 1: Establish strong company management systems.

Company Policy: The Company has officially issued <Responsible Gold Supply Chain Due Diligence Management Policy of Henan Zhongyuan Gold Smelter LLC> (Hereinafter referred as <Responsible Gold Supply Chain Due Diligence Management Policy>), which is consistent with the model set out in <Annex II of OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas> in 2013. The policy sets out our responsibility for conducting risk-based due diligence, screening and monitoring transactions and the governance structures in place. Zhongyuan Smelter made organizational structure adjustment in September of 2016. Henan Zhongyuan Gold Smelter LLC (Hereinafter referred to as “Refiner”) adjusted its organization structure in September of 2016, including detaching the Risk Controlling Department from the Marketing Centre and renamed as the Risk Control and Compliance Management Department which takes charge of the compliance management, risk control and legal affairs. According to the LBMA RGG V7, Zhongyuan Smelter amended <Responsible Gold Supply Chain Due Diligence Management Policy> and released it in 2018.

Internal Management Structure: An internal management system has been set up to define the governance, roles and responsibilities, communication and senior management review as per the adopted <Responsible Gold Supply Chain Due Diligence Management Policy>. The Senior Management Committee, the governing body of due diligence management, is responsible for reviewing <Responsible Gold Supply Chain Due Diligence Management Policy>, appointing Compliance Officer to manage routine work of due diligence and authorizing the Deputy General Manager in charge of the Gold-bearing Material Procurement Department to review the due diligence results and

risk management strategy. The Compliance Officer is responsible for compiling and updating <Responsible Gold Supply Chain Due Diligence Management Policy>, reviewing the due diligence results submitted by Gold-bearing Material Procurement Department, evaluating the effectiveness of risk management strategy, coordinating the gold supply chain training and reporting directly to Senior Management Committee when necessary. Gold-bearing Material Procurement Departments are responsible for supplier evaluation prior to contracting, monitoring of transactions with approved suppliers and an annual revaluation process. Human Resource Department and Supervision Department also play important roles in due diligence process.

The Senior Management Committee holds committee meeting at least once a month. In the meeting held on Sep. 12th, 2016, the members of committee reviewed and approved the revised edition of <Responsible Gold Supply Chain Due Diligence Management Policy>, reviewed the results of responsible gold supply chain due diligence for new suppliers in 2016 and annual supplement due diligence assessment for existing suppliers in 2016 and appointed Hu Yingxia, the Head of Risk Controlling Department of Market Centre, as the new Compliance Officer. Hu Yingxia has extensive experience in gold refinery technology and supply chain and risk management. In 2018, the Compliance Officer was not changed.

Internal System: In 2018, Zhongyuan Smelter strictly followed the <Responsible Gold Supply Chain Due Diligence Management Policy> and conducted risk-based due diligence investigation on suppliers. All the transactions were monitored to avoid establishing cooperation with suppliers associated with high risks. Meanwhile, all due diligence investigation findings and results were reviewed by the Compliance Officer and approved by the deputy General Manager. Given the changes in suppliers and risk management strategy, Purchase of Raw Material Department I and Purchase of Raw Material Department II conducted annual supplementary due diligence assessment for suppliers. The results were reviewed by the Compliance Officer and the deputy General Manager and approved by the Senior Management Committee.

Engagement with Gold-supplying Counterparty: Staff from Purchase of Raw Material Department I and Purchase of Raw Material Department II should require all gold-supplying counterparties to sign the declaration before contracting to ensure that

they are aware of company's commitment to <LBMA Responsible Gold Guidance>, the supply chain policy and respective requirements. In this declaration, gold-supplying counterparties should commit to, and acknowledge in writing that there is no serious human rights abuse throughout the extraction, transport or trade of minerals, no direct or indirect support to non-state armed groups, no direct or indirect support to public or private security forces and no bribery and fraudulent misrepresentation of the origin of minerals, money laundering. Also, the payment of taxes, fees and royalties related to mineral extraction, trade and export from conflict-affected and high-risk areas are paid to governments. All suppliers contracted in 2018 signed the declaration.

Communication Mechanism: In order to help all staff involved in the gold supply chain to have a thorough understanding of the due diligence system, the Risk Control and Compliance Department launched the annual gold supply chain due diligence training program on Dec. 12th, 2018. The targeted audiences were employees from the gold-bearing material departments. The purpose of the training program was to help them establish a deep-through understanding of the <LBMA Responsible Gold Guidance> and the related toolkit, including the LBMA regulatory requirements, <Responsible Gold Supply Chain Due Diligence Management Policy> and the risk management of gold procurement process (Risk Pre-Control, Risk Assessment, Monitoring and Communication Mechanisms, etc.).

Meanwhile, the latest edition of <Responsible Gold Supply Chain Due Diligence Management Policy> and issuing notice were uploaded via Office Automatic System and is available to all the employees on the intranet. Zhongyuan Smelter also built a company-wide communication mechanism that promotes employee engagements in risk identification activities. Employees are welcomed to voice their concerns over the gold supply chain or any newly identified risks via hotline, E-mail or mailboxes.

Step 2: Identify and assess risk in the supply chain

Compliance Statement with Requirement:

We have fully complied with Step 2: Identify and assess risk in the supply chain.

Risk Identification for Gold-bearing Material Supplier: In the <Responsible Gold Supply Chain Due Diligence Management Policy>, Zhongyuan Smelter clarified the approach for risk identification in the supply chain and conducted the risk identification

based on this approach. Before entering into business relationships, Purchase of Raw Material Department I and Purchase of Raw Material Department II need to complete <Responsible Gold Supply Chain Due Diligence Form> with LBMA <RGG Questionnaire> to collect supplier information including company type, registration location, and transaction type for new supplier risk evaluation.

As for large-scaled mined gold suppliers, origin of mined gold and mining licenses are obtained and import/export licenses are required if applicable; for artisanal and small-scaled mining suppliers, mining licenses are obtained to prove their legalities; for recycled gold and secondary gold suppliers, the policies and practices related to anti-money laundering and combating terrorist financing are obtained.

All relevant certificates of mined gold and recycled gold suppliers were collected by Purchase of Raw Material Department I and Purchase of Raw Material Department II in 2018. As is noted in supplier financial policies, all the revenues and expenses are required to be supported with original documents, which implies the efforts suppliers make in avoiding money laundering and terrorism financing risks. The company will continue developing more strict requirements on secondary and recycled gold suppliers' direct policy related to anti-money laundering and combating terrorist financing to manage their own upstream risks in future.

As at Dec. 31st, 2018, the Purchase of Raw Material Department I and Purchase of Raw Material Department II have completed risk identification of all the existing suppliers.

Risk Assessment for Gold-bearing Material Supplier: In <Responsible Gold Supply Chain Due Diligence Management Policy>, Zhongyuan Smelter defined the methods for high risk evaluation and the complementary annual revaluation.

Before entering into a business relationship, the Purchase of Raw Material Department I and Purchase of Raw Material Department II performed new supplier due diligence with respect to six risk-identifying criteria that fall into two aspects: company risk and country risk. Country risks include:

(1) The mined gold or recycled gold originates from or has been transported through a conflict-affected or human right abuse area (high risk area or human right abuse area is reference to Heidelberg Barometer);

(2) The mined gold or recycled gold is claimed to originate from a country that has limited known reserves or stocks, likely resources or expected production levels of gold;

(3) The mined gold or recycled gold is claimed to originate from a country through which gold from conflict-affected and high-risk areas is known or reasonably suspected to transit.

Company risks include:

(1) Supplier or its up-stream company is located in a high risk country that is related to money-laundering, criminal or corruption;

(2) Supplier or its up-stream company or beneficial owners are politically exposed person;

(3) Supplier or its up-stream company is active in a higher-risk business activity such as arms, gaming and casino industry, antiques and art, diamond merchants, sects and their leaders.

If any of above risk events occurred, Zhongyuan Smelter would classify the supplier as high-risk supplier and would not build business relationships with them. If any of those risk events tended to occur, Zhongyuan Smelter would not enter into the business relationship until an authorised investigation was completed. If none of those risk events occurred, Zhongyuan Smelter would establish business relationship as a ‘normal cooperation’ with this supplier.

During the transaction process, the Purchase of Raw Material Department I and Purchase of Raw Material Department II should also monitor and assess the risks. We collected suppliers’ information based on transaction type and origin of transaction area. We would suspend the relationship and report to the Compliance Officer if the ‘normal cooperation’ may be potentially involved in money laundering, financing of terrorism, conflicted-affected and high-risk areas or violations of human rights. If there is solid evidence to prove that supplier is involved in money laundering, financing of terrorism, conflicted-affected and high-risk areas or violations of human rights, we would cancel the cooperation immediately.

As of Dec. 31st, 2018, Zhongyuan Smelter completed all the risk assessment for new and existing suppliers. Regarding the country risks, the new imported gold concentrate supplier of the year are Zhongyuan Zhongjin Metal (Shanghai) Limited (hereinafter referred as Zhongyuan Zhongjin) and Ocean Partners UK Limited (hereinafter referred as Ocean Partners). Zhongyuan Zhongjin is a company registered in China whose ores are originated in Australia and Bolivia. Ocean Partners is an existing suppliers of copper concentrate of Zhongyuan Smelter and became a new gold concentrate supplier in 2018. The rest of the new gold concentrate suppliers are all domestic. Origin of gold concentrates of Individual foreign suppliers, such as CLIVEDEN TRADING AG (hereinafter referred to as "CLIVEDEN") and Zhongyuan Zhongjin, are coming from conflict areas such as Papua New Guinea and Bolivia. However, from the <Heidelberg barometer>, mined gold are not located in the conflict areas, and Zhongyuan Smelter has already signed the Letter of Commitment for Supplier Responsible Gold with CLIVEDEN and Zhongyuan Zhongjin. In the letter, the two companies committed not to purchase mined gold in conflict areas. The procurement of the gold bullion comes from the territory of China. Overall, country risks have been assessed as low risk.

Zhongyuan Smelter collected the company nature, registration location and transaction type of suppliers. We also checked whether the recognizable beneficial owners of supplier are on the terrorist organization list published on People's Republic of China Ministry of Public Security's website and whether the recognizable beneficial owners have obtained the antique trading certificates. We have improved our work on the identification of benefit owners of private company. By taking the advantage of National Enterprise Credit Disclosure System platform (<http://www.gsxt.gov.cn>), we were able to check on suppliers' information regarding to shareholders/benefit owners.

Meanwhile, we assessed the commodity risk of our suppliers by reconciling between goods delivery notes and our own assay reports and by checking whether supplies are transported through high risk area. No high or medium risk suppliers were identified in 2018.

Risk Assessment Report for Gold-bearing Material Supplier: The Compliance Officer is responsible for reviewing the authenticity, validity and completeness of due diligence and then reporting to the two Deputy General Managers in charge of the

Purchase of Raw Material Department I and Purchase of Raw Material Department II. The Deputy General Managers in charge of the Purchase of Raw Material Department I and Purchase of Raw Material Department II review and sign off the due diligence report. Any contract with terms longer than one year should be approved by Senior Management Committee. Only in the case that risk management strategy is identified as 'normal', the purchase transaction could be processed.

All <Responsible Gold Supply Chain Due Diligence Form – New Supplier> were reviewed and approved by the Compliance Officer and the Procurement Manager in 2018

Step 3: Design and implement a management strategy to respond to identified risks

Compliance Statement with Requirement:

We have fully complied with Step 3: Design and implement a management strategy to respond to identified risks.

Risk Management: Zhongyuan Smelter takes diverse risk management strategies based on different due diligence results. Where the result of the due diligence is not fully satisfactory, but the assessed company in the supply chain is using reasonable and good faith effort, we will continue to refine gold coming from this source provided that it adopts an improvement strategy stating clear performance objectives within a reasonable timeframe. If the result of the gold supply chain due diligence concludes that there may exist money laundering, terrorist financing, contribution to conflict, human rights abuses, or if the possibility of the same is deemed high, we will stop immediately to refine gold from this source until additional information or data confirming or refuting the preliminary assessment.

For 'normal cooperation' that planned risk resolution with specific schedule, the Purchase of Raw Material Department I and Purchase of Raw Material Department II are responsible for overseeing the implementation of risk resolution. Compliance Officer should review the results regularly.

According to the due diligence results for 2018, there was no supplier that need a management strategy of risk mitigation.

Continuous Monitoring: At the end of each year, the Purchase of Raw Material Department I and Purchase of Raw Material Department II are responsible for collecting all changes to suppliers' information, the on-going monitoring results of transactions and conducting the annual supply chain due diligence revaluation to decide whether to continue cooperation.

At the end of 2018, Purchase of Raw Material Department I and Purchase of Raw Material Department II conducted annual supplement risk assessments for all the suppliers except the new ones in 2018. Compliance Officer reviewed the assessment results. In the Senior Management Committee meeting held on Dec. 24th, 2018, the management reviewed and approved the assessment results. There was no supplier assessment result that pointed to "Suspend Cooperation" or "Terminate Cooperation".

Step 4: Arrange for an independent third-party audit of the supply chain due diligence

Compliance Statement with Requirement:

We have fully complied with Step 4: Arrange for an independent third-party audit of the supply chain due diligence.

We have entered into a service agreement with Deloitte Touche Tohmatsu Certified Public Accountants LLP (hereinafter referred to as "Deloitte") to carry out an independent third-party assurance on our compliance practices adhered to *LBMA RGG*.

Deloitte performed an independent third-party limited assurance engagement in accordance with International Standard in Assurance Engagements ISAE3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000). Deloitte and we agreed that a limited assurance is to be applied to year 2018. The Independent limited Assurance Report and the Management Report can be found in attached document.

Step 5: Report on supply chain due diligence

Compliance Statement with Requirement:

We have fully complied with Step 5: Report on supply chain due diligence.

To align to the specific requirements in the <LBMA Responsible Gold Guidance>, Zhongyuan Smelter prepares and reports <The Refiner's Compliance Report> on time. Other stakeholders could contact us to obtain a copy of <The Refiner's Compliance Report> via telephone and email.

Zhongyuan Smelter's overall conclusion

Table 3: Management conclusion:

Overall speaking, in 2018, Zhongyuan Smelter has improved the RGG supply chain management system, identified and assessed the associated risk for our suppliers, designed and implemented risk management strategy, conducted independent third-party audit for supply chain due diligence investigation. Zhongyuan Smelter has therefore fully complied with <LBMA Responsible Gold Guidance> in the year ended Dec. 31st, 2018.

In the next phase of work, given the fact that made organizational structure adjustment and the strategy of Zhongyuan Smelter, we will take this opportunity and are committed to continuous improvement and aim to combine the responsible gold supply chain process with our existing supply chain process more effectively. Any corrective action identified will be monitored internally on a regular basis.

Table4: Other report comments

If users of this report wish to provide any feedback to us with respect to this report, feel free to contact us by telephone +86-0398-2756627 or E-mail 277407501@qq.com.