

**Jiangxi Copper Company Limited**

LBMA Responsible Gold Guidance and LBMA

Responsible Silver Guidance Compliance

Independent Reasonable Assurance Report

*The year ended 31 December 2018*

### **Independent Reasonable Assurance Report to Jiangxi Copper Company Limited**

We were engaged by Jiangxi Copper Company Limited ("Jiangxi Copper") to provide reasonable assurance on its Refiner's Compliance Report for the year ended 31 December 2018. The assurance scope consists of the Refiner's Compliance Report.

#### **Responsibilities**

The management of Jiangxi Copper are responsible for the preparation and presentation of the Refiner's Compliance Report in accordance with the *LBMA Responsible Gold Guidance* and the *LBMA Responsible Silver Guidance* (the *Guidances*). This responsibility includes establishing appropriate risk management and internal controls from which the reported information is derived. The criteria identified by the management as relevant for demonstrating compliance with the *Guidances* are the activities described within the Refiner's Compliance Report. Our responsibility is to carry out a reasonable 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 guidances set out in the *LBMA Responsible Gold Programme - Third Party Audit Guidance for ISAE 3000 Auditors* and the *LBMA Responsible Silver Programme - Third Party Audit Guidance for ISAE 3000 Auditors* (the *Audit Guidances*).

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

#### **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 methods used by Refiners to comply with the *Guidances* may differ. It is important to read the Jiangxi Copper's gold and silver supply chain policy which can be reached from the contact of Jiangxi Copper.

#### **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 out in the *Audit Guidances* to carry out the assurance engagement.

#### **Conclusion**

In our opinion, the Jiangxi Copper's Refiner's Compliance Report for the year ended 31 December 2018, in all material respects, describes fairly the activities undertaken during the year to demonstrate compliance, and management's overall conclusion contained therein, is in accordance with the requirements of the *LBMA Responsible Gold Guidance* and *LBMA Responsible Silver Guidance*.

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

24 March 2019  
Shanghai, the People's Republic of China

**Jiangxi Copper Company Limited**  
**Multi-metal Combined RGG and RSG**  
**Compliance Report**  
**(Year 2018)**

**Jiangxi Copper Company Limited**

**2019.03.24**

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## Introduction

Jiangxi Copper Company Limited (hereinafter referred to as "Jiangxi Copper", "the Company", or "We") is currently China's largest producer of copper cathode. Jiangxi Copper's self-sufficiency rate for copper concentrate is the highest in China, and Jiangxi Copper is also the largest and most modernized copper production and processing base in China, as well as the country's major production base of sulphide chemicals and rare and precious metals such as gold, silver, selenium, tellurium and rhenium. Our annual yield of gold and silver production in 2018 are 25t and 394t respectively. Jiangxi Copper was listed in Hong Kong Stock Exchange in 1997 and Clear Limited (hereinafter referred to as "HEKx") and then Shanghai Stock Exchange (hereinafter referred to as "SSE") in 2002.

Jiangxi Copper has been a Good Delivery Refiner of both silver and gold after obtaining silver and gold delivery certificates from London Bullion Market Association (hereinafter referred to as LBMA) on 21<sup>st</sup> April 2004 and 30<sup>th</sup> September 2005, respectively. Our gold and silver products are also registered in Shanghai Gold Exchange and Shanghai Futures Exchange, respectively, as qualified commodities.

According to the requirements under *LBMA Responsible Gold Guidance* (hereinafter referred to as "LBMA RGG") and *LBMA Responsible Silver Guidance* (hereinafter referred to as "LBMA RSG") issued by LBMA, refiners should implement a strict due diligence on its suppliers in order to combat systematic or widespread abuses of human rights, to avoid contributing to conflict and to comply with high standards of anti-money laundering and combating terrorist financing practices. Jiangxi Copper compiles management policies regarding gold and silver supply chain due diligence and carries out the due diligence on gold and silver suppliers accordingly.

This report is a compliance report of Jiangxi Copper that summarises responsible gold and silver due diligence work of the year and how the *LBMA RGG* and *LBMA RSG* were followed throughout the year ended 31<sup>st</sup> December 2018.

## 1. Company Profile

<b>Company Name</b>	Jiangxi Copper Company Limited
<b>Location</b>	15 Yejin Avenue, Guixi City, Jiangxi Province, P.R. China
<b>Year of Report</b>	Year ended 31 <sup>st</sup> December 2018
<b>Executive Responsible for the Report</b>	Mr. Zhou, Shaobing, Vice President

Jiangxi Copper is listed in both HKEx as H-share (stock code: 00358.HK) and SSE as A-share (stock code: 600362.SH). Therefore, we are asked to comply with the regulatory requirements of internal control for the listed corporation (HKEx: *Practice Note 21, Consolidated Main Board Listing Rules*, and SSE: *Basic Standard for Enterprise Internal Control* and its implementation guidelines). *Practice Note 21* sets a rule that the sponsor should review the internal control of the corporate planning to be listed. Besides, *Consolidated Main Board Listing Rules* requests directors at least annually review the effectiveness of internal control systems of the issuer and its affiliated corporations. The review should be reported to the stakeholders in *Corporate Governance Report*, which should cover all vital monitoring aspects, including operation monitoring, compliance monitoring, and risk management functions, etc. Firms listed in SEE should follow the requirements of *Basic Standard for Enterprise Internal Control* and its implementation guideline. These firms should also prepare a self-assessment for internal control and an assessment report. *Basic Standard for Enterprise Internal Control* and its implementation guideline clearly defines how to select a supplier in procurement business, for example, an enterprise should make a scientific assessment and admittance policy of the suppliers, determine the list of qualified suppliers, and make a comprehensive judgment of the suppliers.

The certificate of Quality System under ISO 9001:2008 and GB/T19001-2008 effective until March 3<sup>rd</sup> 2019, the certificate of Environmental Management System under ISO14001:2004 and GB/T24001-2004 effective until March 7<sup>th</sup> 2019 and the certificate of Occupation Health Safety Management System under OHSAS 18001:2007 and GB/T28001-2011 effective until March 7<sup>th</sup> 2019 were renewed in March 2016. These certificates cover the production and service ranging from Cathode Copper, Sulphuric Acid, Gold, and Silver to Cupric Sulphate. The certificate of Measurement Management System under ISO10012:2003 and GB/T19022-2003 effective until May 8<sup>th</sup> 2021 was renewed in May 2016 and that of Energy Management System

under ISO50001 effective until April 13<sup>th</sup> 2021 was renewed in April 2018. Jiangxi Copper meets the requirements of above standards regarding the managements of products quality, professional health and safety, environment, energy, monitoring and measurement.

## **2. Compliance Overview**

### **Step 1: Establish Strong Company Management Systems**

**Compliance overview for step 1: In the year ended 31<sup>st</sup> December 2018, we have fully complied with the requirement of Step 1: Establish strong company management systems.**

### **Responsible Internal Management Organization Structure**

Jiangxi Copper issued *Gold and Silver Supply Chain Due Diligence Management Policy (File No. [2018]430)* in December 2018 and set up the Responsible Gold and Silver Supply Chain Compliance Committee (hereinafter referred to as "Compliance Committee") with the Vice President of the Company as Leader of Compliance Committee, the Manager of Planning and Production Management Department as Director and Deputy Leader of Compliance Committee, and the related staffs coming from Planning and Production Management Department, Trade Division, Risk Control Internal Audit & Legal Affairs Department as members of the committee. The leader of Compliance Committee remained Mr. Zhou, Shaobing, and Mr. Hu, Baogen was appointed as the new Director and Deputy Leader.

The Responsible Gold and Silver Supply Chain Compliance Committee held a meeting on 6<sup>th</sup> March 2018. This meeting was hosted by Mr. Xiong, Jianping, the Ex-Director of the Compliance Committee. The members from Production Operation Department (now known as Planning and Production Management Department), Trade Division and Risk Control & Internal Audit Department and Legal Affairs Department (now known as Risk Control Internal Audit & Legal Affairs Department) joined the meeting. The work plan of the responsible gold and silver Supply chain compliance due diligence was discussed in this meeting, and the training on the latest version of *LBMA RGG* and *LBMA RSG* were also conducted. Matters and discussions were recorded in a meeting minutes.

### **Responsible Gold and Silver Due Diligence Policy**

According to the requirement of *LBMA RGG*, *LBMA RSG* and *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* (hereinafter referred to as "*OECD Due Diligence Guidance*"), we issued the *Gold and Silver Supply Chain Due Diligence Management Policy* (hereinafter referred to as *Due Diligence Management Policy*). The *Policy* includes the Definition of Terminologies, Organization and Responsibility, Supplier Information Collection, Risk Identification and Assessment, Trade Risk Monitoring, Record Maintenance, Training and Communication. Additionally, the *Gold and Silver Supply Chain Due Diligence Flow Chart*, the template of *LBMA Questionnaire*, *LBMA Due Diligence Checklist*, *LBMA Supplier Assessment Form*, and *Supplier Responsible Gold (Silver) Commitment Letter* were added to the *Due Diligence Management Policy* as attachments. The main contribution of this revision is to include requirements under *LBMA RSG* in the policy.

According to the *Due Diligence Management Policy*, the results of due diligence and risk rating of gold and silver supply chains by the Trade Division need to be reviewed by the Director of Compliance Committee. The company should maintain a sound record of all due diligence related materials for no less than 5 years. We confirm that the results of supplier due diligence and risk rating in 2018 were reviewed and signed by the Director of Compliance Committee, and the materials were kept on file.

In addition, we introduced a supply chain traceability system that collects and maintains supply chain information for each lot refined.

### **Supplier Cooperation**

Following the requirement of *LBMA RGG*, *LBMA RSG* and the Appendix II of *OECD Due Diligence Guidance*, we drafted the *Supplier Responsible Gold (Silver) Commitment Letter*. Trade Division of Jiangxi Copper is responsible for communicating with stakeholders along gold and silver supply chains in line with *LBMA RGG*, *LBMA RSG* and *Due Diligence Management Policy* issued by Jiangxi Copper. Through the communication, we try to update the stakeholders with the latest responsible gold and silver policies and procedures of LBMA timely and encourage them to follow the relevant policies and procedures. Prior to the cooperation with the suppliers, suppliers are required to sign the *Supplier Responsible Gold (Silver) Commitment Letter* to ensure that the suppliers acknowledge and will comply with *LBMA RGG* as well as *LBMA RSG*, and understand Jiangxi Copper's policies on gold and silver supply chain and related requirements, so that risks during cooperation can be reduced. All the gold and silver bullion suppliers signed the *Supplier Responsible Gold (Silver) Commitment Letter* in 2018.

## **Training**

In the *Due Diligence Management Policy* of Jiangxi Copper, it is clearly stated that the Planning and Production Management Department is responsible for holding gold and silver supply chain due diligence training. The training can be delivered via centralised training, internal newspaper, Office Automation System, and exhibition publicity so that related employees can have a comprehensive understanding of *LBMA RGG* and *LBMA RSG*.

On 6<sup>th</sup> March 2018, a training around gold and silver supply chain due diligence was held, which covered *LBMA Responsible Gold Guidance V.7*, *LBMA Responsible Silver Guidance V.1* and *OECD Due Diligence Guidance*. Attendees all signed in and training contents were recorded and documented.

## **Communication**

In the *Due Diligence Management Policy* of Jiangxi Copper, the report mechanism and channel of gold and silver supply chain management is clearly defined for both our internal staff and the employees of suppliers. Anyone who raises concerns related to the executing policies or discovers the irregular behaviours can contact the responsible person Mr. Zhang, Bo through phone (0791-82710129) or Email (zhh@jxcc.com). This report mechanism and channel was announced on the intranet. Besides, the *Due Diligence Management Policy* is uploaded to the Office Automatic System and is accessible to all employees through the intranet.

## **Step 2: Identify and Assess Risks in the Supply Chain**

**Compliance Overview for step 2: In the year ended 31<sup>st</sup> December 2018, we have fully complied with requirement of Step 2: Identify and assess risks in the supply chain.**

The main sources of Jiangxi Copper's gold and silver products include the gold and silver by-products generated during copper smelting, and recasts from purchased gold and silver bullion. According to *LBMA RSG*, due diligence is performed on all materials regardless of their silver content. Materials containing less than 15% silver by weight (kilograms) may be excluded from the scope of the guidance. We fully documented the decision process leading to our conclusion in *Risk Assessment Report on Materials Containing Less than 15% Silver by Weight* and obtained approval signature of Compliance Committee Director and Leader. *Risk Assessment Report on*

*Materials Containing Less than 15% Silver by Weight* addressed that the materials mentioned pose no risk of contributing to systematic or widespread abuses of human rights, does not contribute to conflict, and complies with high standards of anti-money laundering and combating terrorist financing practices.

We mainly implement the due diligence for the purchased gold and silver bullion suppliers. In the year 2018 we bought part of the gold bullion from Shanghai Gold Exchange directly, and the rest of the purchased gold bullion came from three domestic suppliers: Lanxi Zili Copper Industry Co., Ltd., Jiangxi Self-Independence Environmental Protection Technology Co., Ltd. and Jiangxi Xinjinye Industrial Co., Ltd. Silver bullion was purchased from two domestic suppliers: Lanxi Zili Copper Industry Co., Ltd. and Jiangxi Self-Independence Environmental Protection Technology Co., Ltd.

### **Supplier Information Collection**

Before entering in cooperation with suppliers, Trade Division is responsible for collecting relevant information and materials. Trade Division sends different *LBMA KYC Questionnaire – Mined Material* or *LBMA KYC Questionnaire – Recycled Material* to the suppliers based on type of materials (mined material or recycled material) to obtain relevant information and documentations, which include supplier's basic information, business activities, beneficial owner(s), management structure, financial details, human resource, gold and/or silver origin, facilities, and responsible gold supply chain, etc.

After that, the collected information will be checked based on *LBMA Due Diligence Checklist – Mined Material* or *LBMA Due Diligence Checklist – Recycled Material*.

### **Supplier Risk Identification**

According to the feedback from the questionnaires and related documentations of the suppliers, Trade Division works in supply chain risk identification. During the process of risk identification, whether the suppliers are associated with risk events in the following areas are focused:

- Whether the gold and/or silver was mined or purchased from higher risk origins;
- Whether the transportation and transaction process passed through high risk areas or conflict areas;

- Whether there was an illegal extortion or taxation during mining, transportation and transaction process (Risk of indirect contribution to conflicts or to non-state armed groups might exist );
- Whether the actual controllers or important shareholders of suppliers also operate other high risk business like casino or diamond business (Risk of money laundering might exist);
- Whether all the origins of the gold and/or silver are able to be traced, and whether there is behaviour trying to cover up the real source (Risk of corruption might exist);
- Whether the detail of paying relevant taxes and expenses to the government is not disclosed, or whether there is unknown money paying to the government (Risk of supporting non-state armed groups might exist);
- Whether organizations in charge of security of the suppliers are suspected of armed conflict (Risk of indirectly contributing to conflicts or to non-state armed groups might exist);
- Whether there is a phenomenon of labour abuses in organizations that are responsible mine security of the suppliers (Risk of human rights abuses might exist).

### **Supplier Risk Assessment**

The risk assessment of responsible gold and silver supply chain of Jiangxi Copper consists of three aspects: Country Risks, Company Risks and Commodity Risks. Before proceeding the transactions, Trade Division need to conduct the risk assessment on the suppliers. The Country Risks include two risk issues, such as the gold-bearing material is originating from or transported through a conflict-affected or human right abuse area (cross-reference to Heidelberg Barometer). The Company Risks include seven risk issues, such as the supplier or its up-streaming company is located in a high risk country that is related to money-laundering, criminal or corruption. The Commodity Risks include five risk issues in total, one of which is the route of gold-bearing material output, transit or transaction transport passes through areas of worldwide conflict or high risk violations of human rights. The security and logistics companies directly or indirectly supported by non-governmental armed groups or the security forces, such as shipping and trading process is illegal extortion or taxation.

In the sight of the risk events mentioned above, the risk identification and assessment are carried out according to the steps of self-produced gold and silver suppliers and purchased gold and silver suppliers in *Due Diligence Management Policy*. If evidence obtained from the risk

identification and assessment are not sufficient to exclude the presence or potential possibility of a supplier with medium or high risk, an additional due diligence is essential. The additional due diligence procedures include on-site visit, investigation, and a further verification for the gold and silver chain due diligence information, etc.

As at 31<sup>st</sup> December 2018, we finished the tasks of information collection, risk identification, and risk assessment for all gold and silver bullion suppliers. The results of the risk assessment were entirely recorded into corresponding *LBMA Supply Chain Assessment Form*, which includes the supporting documents of the assessments, the comments and dates of approval. In 2018, all the gold and silver bullion suppliers were identified as low risk.

Moreover, every year we select a portion of raw material suppliers to conduct onsite interview and onsite inspection by an inspection group which is composed of corresponding personnel in charge from the Planning and Production Management Department, Trade Division, and Guixi Refinery Plant. In 2018, we selected one gold bullion suppliers, Jiangxi Self-Independence Environmental Protection Technology Co., Ltd, as the subject of the onsite inspection. We confirmed that the current business conditions of this supplier above are well, and explained that all the origins of gold are by-products from the copper refining process. Also, we summarized the result of the onsite inspection into the *Second-party Raw Material Inspection Report (Year 2018)*.

### **Step 3: Design and Implement Strategy to Respond to Identified Risks**

**Compliance overview for Step 3: In the year ended 31<sup>st</sup> December 2018, we have fully complied with step 3: Design and implement strategy to respond to identified risks.**

According to the result of risk assessment, the suppliers are classified into three levels: low risk, medium risk, and high risk. We adopt various risk control measures for suppliers at different levels. The details are as follows:

<b>Risk Level</b>	<b>Types of Suppliers</b>	<b>Risk Control Measures</b>
Low Risk	Existing Suppliers	<ul style="list-style-type: none"> <li>• New orders for gold and/or silver material can be placed.</li> <li>• Existing orders can be shipped.</li> </ul>

	New Suppliers	<ul style="list-style-type: none"> <li>• New suppliers can be accepted.</li> </ul>
Medium Risk	Existing Suppliers	<ul style="list-style-type: none"> <li>• New orders for gold and/or silver material should be deferred.</li> <li>• Existing orders should be put off to avoid the occurrence of irregular status</li> <li>• Until obtaining more information and evidences to confirm the risk level of the suppliers.</li> </ul>
	New Suppliers	<ul style="list-style-type: none"> <li>• The acceptance of new suppliers should be deferred.</li> <li>• The corrective action plan should be delivered by the suppliers</li> <li>• Until obtaining more information and evidences to confirm the risk level of the suppliers.</li> </ul>
High Risk	Existing Suppliers	<ul style="list-style-type: none"> <li>• All orders that have not been on boarding should be suspended.</li> <li>• If the goods have been on boarding, it should be disposed according to sales return procedures.</li> <li>• The production made from gold-bearing and/or silver-bearing material provided by high risk suppliers should be preserved separately from others.</li> <li>• A re-assessment should be carried out within 180 days after the last assessment. If the non-compliance phenomenon is disappeared, the cooperation with the suppliers can be continued and the suppliers should be listed as medium risk.</li> <li>• The monitoring and assessment results should be termly reported to related senior management, which can support the management to decide whether to cooperate with the suppliers or not.</li> </ul>
	New Suppliers	<ul style="list-style-type: none"> <li>• New suppliers cannot be accepted</li> </ul>

As a link of continuous due diligence, Trade Division needs to continually pay attention to transaction risks after the contract is signed and carry out the risk assessment. If Trade Division found the existing normal cooperation of low risk suppliers may involve money laundering and terrorist financing, promote conflict, human rights abuses, Trade Division should immediately suspend the cooperation relations and carry out related investigations. If conclusive evidence exists to prove that suppliers involve money laundering and terrorist financing, promote conflict, human rights abuses, Jiangxi Copper should immediately stop purchasing and terminate the cooperation. If significant risks or problems were found in the due diligence process, the Compliance Director would report to the company's management on major issues of gold and silver supply chain management in accordance with the *Due Diligence Management Policy*.

As at 31<sup>st</sup> December 2018, we completed the risk identifications and risk assessments of all gold and silver bullion suppliers of the year. All gold and silver bullion suppliers in 2018 are low risk, and no potential problem was found. No gold or silver suppliers involved in money laundering, terrorist financing, encouraging conflict or violation of human rights, etc. New orders for gold and silver materials are allowed to be placed and existing orders can be shipped.

#### **Step 4: Carry out Independent Third-Party Audit of Refiner's Due Diligence Practices**

**Compliance overview for step 4: We have fully complied with Step 4: Carry out independent third-party audit of refiner's due diligence practices.**

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* and *LBMA RSG*.

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

#### **Step 5: Report Annually on Supply Chain Due Diligence**

**Compliance overview for step 5: We have fully complied with Step 5: Report annually on supply chain due diligence.**

We have issued *Jiangxi Copper Company Limited Responsible Gold and Silver Guidance Compliance Report* in accordance with *LBMA RGG* and *LBMA RSG* to disclose our supply chain due diligence performance in the year ended 31<sup>st</sup> December 2018.

**5.2 Independent Reasonable Assurance Report**

**5.3 LBMA Responsible Gold and Silver Guidance Compliance Management Report**