

LBMA Responsible Gold Guidance - Refiner Assessment Report

For third-party audits based on ISO19011:2011.

Prepared for: London Bullion Market Association (LBMA)

Date: 08-09 March 2018

Draft Version 2

Report

Distribution

List:

ASSESSMENT INFORMATION	
Refiner Name:	Shandong Gold Smelting Co., Ltd
Refiner Location:	Jiaojia Village, Jincheng Town, Laizhou, Yantai, Shandong, China
Refiner Contact Person: Name, Title: Email: Phone:	Ms. HOU Xujing Title: Manager of Risk Control Department Email: houxujing123@163.com Phone: +86-535-2697916
Lead auditor and audit team members	Lead auditor: Chaco LIANG Team auditor: Amos KUANG
Dates and places where the onsite assessment activities were conducted	08.03.2018 - 09.03.2018 Place: Shandong Gold Smelting Co., Ltd

LBMA Refiner Assessment Report	
Assessment objectives:	
<i>The objectives of the assessment were to evaluate the conformity of the Refiner's management system procedures processes and practices with the LBMA Responsible Gold Guidance.</i>	
Assessment scope:	
<i>Refiner location(s) included in the assessment scope</i>	Jiaojia Village, Jincheng Town, Laizhou, Shandong, China
<i>Assessment Period</i>	01.01.2017 - 31.12.2017
Assessment methodology:	
<p><i>The Assessment team used a triangulation and sampling methodology to evaluate implementation, adequateness, consistency and effectiveness of existing risk management and control system at the Refiner. The assessment covered all areas and steps of framework required by the LBMA Responsible Gold Guidance. Each area of the LBMA Responsible Gold Guidance was verified through documentation review (including policy/procedure and records), management/employee interview, and onsite observation during the plant tour.</i></p> <p><i>The evidence of compliance that was reviewed included:</i></p> <ul style="list-style-type: none"> <i>The following documents were reviewed: Refiner's Due Diligence Policy and Procedures, Gold supplying counterparties' (GSC) profiles, Due diligence records for GSCs and subcontractors, Written commitment of GSCs and subcontractors for following supply chain policy, transaction records and supply chain related production records.</i> <i>The following areas of the facility were visited during the tour: Ball-milling, floatation, cyaniding, chlorination-leaching, pulverization, dissolution in aqua regia, reduction, drying and ingot casting section, gold ore sampling area, mined crude gold and recycled gold sampling area, gold vault and gold ore weighing room.</i> <i>The following interviews were conducted with management: Risk Control Department Manager, Marketing Department Managers, Risk Control Department, Production supervisor, Assistant Manager of Financial Department.</i> <i>In addition to the above management team, one male vault keeper was interviewed and one male material-receiving worker.</i> 	



Statement of the confidential nature of the contents:
<i>All the data contained in the assessment report, as well as all information obtained during the performance of the certification, is private and confidential between the auditing body and the Refiner.</i>
Any significant or inherent limitations or areas not covered that were within the assessment scope:
None
Assessment summary:
<p><i>A full assessment audit of Shandong Gold Smelting Co., Ltd was conducted on 08-09 March 2018. A total of 4 man-days were spent conducting the onsite assessment, including opening meeting, system review, interview, plant tour and closing meeting.</i></p> <p><i>During the opening meeting, the assessment team met with Vice General Manager, Manager of Marketing Department, Manager of No.2 Marketing Department, Manager of Operation Department, Manager of Financial Department, Manager of Quality Department, and Manager of Risk Control Department. The auditors explained the assessment processes and agenda, assessment standard and UL's integrity policy in detail. The management team granted full access to the assessment team, including documentation review, plant tour and interview with related personnel.</i></p> <p><i>Areas and activities reviewed during the plant tour, included Ball-milling, floatation, cyaniding, chlorination-leaching, pulverization, dissolution in aqua regia, reduction, drying and ingot casting, receiving, weigh in, lot assignment, inventory management, sampling/ assaying. Supplier risk assessment, onboarding procedures, documentation request and follow up process as well as transaction documentation procedures were assessed.</i></p> <p><i>During the period from 1 January 2017 to 31 December 2017, supplier make up was as follows:</i></p> <p><i>Industrial Mining Operations: 8.5%</i> <i>Recycled Materials/ Collectors: 91.5%</i></p> <p><i>As reported by the refiner, there are totally 47 gold supplying counterparties and totally 1884 transactions happening during the past full period.</i></p> <p><i>The facility specializes in the refining of precious metals. Gold inputs include: Mining and gold bearing bar and gold bearing ingot. The refiner currently holds a number of certifications, including: LBMA Responsible Gold Certificate, ISO 9001, ISO 14001 and OHSAS 18001.</i></p> <p>Step 1</p> <p><i>The refiner maintains a gold supply china policy which follows LBMA Responsible Gold Guidance. The policy was established on 1 January 2014 and the most recent revision was made in December 2017. The policy is publicly available at: http://www.sdhjgf.com.cn/news_detail/newsId=740.html</i></p> <p><i>The refiner has assigned responsibilities for implementation of the policy, specifying job description of each personnel under the structure of internal LBMA Due Diligence Team. The Refiner conducted the supply chain policy training to all relevant employees at least once a year. The most recent training was conducted on 19 January 2018. Based on interview, the sampled interviewees appeared to be familiar with the LBMA Responsible Gold Guidance requirement and the refiner's policy. Training content covers shipping and storage of gold bearing materials, documentation maintenance, anti-</i></p>

money laundering and due diligence practice etc. In addition external training has been conducted to all gold supplying counterparties through the form of signing commitment letter. The Refiner has maintained a communication mechanism to allow employees to raise their concerns over the Gold supply chain or newly identified risk.

During internal operation process, the refiner has operation system on computer system and the operation system will assign unique reference number upon receipt automatically to each batch of incoming gold bearing materials. All documentations are maintained for at least 5 years.

Step 2

The refiner has established risk assessment system on their gold supplying counterparties, it uses both LBMA supply chain assessment form and LBMA Responsible Gold Guidance (RGG) questionnaire to identify the Gold supplying counterparties' risks. The system is divided into three risk levels, including low, medium and high risk, by taking different performance points into consideration. Moreover totally three subcontractors are used by the refiner to perform special minting technic where necessary.

In each year, the Risk Control Department Manager is responsible for updating all information and conducting risk assessment of the gold supplying counterparties. The refiner verifies the counterparty's identity through onsite visit, National industrial and commercial bureau website and the local public security bureau. In addition background check of newly identified counterparty is conducted by communicating with other existing counterparties. By far, all gold supplying counterparties' risks were found to be graded as low.

For each transaction, the Refiner collects and records weight, assay results, transportation records of the supplying lots to crosscheck with the refiner's knowledge about the supply chain.

In addition Risk Control Department Manager and Marketing Department Manager are nominated to be responsible for approving each new supply chain. The refiner verifies the counterparty's identity through onsite visit, National industrial and commercial bureau website and the local public security bureau. In addition background check of newly identified counterparty is conducted by communicating with other counterparties.

Step 3

The refiner has implemented a risk mitigation strategy, which is embedded in AML, Compliance and Supply Chain procedures. The Risk Control Department Manager, is responsible for ensuring the strategy's implementation. Based on the identified risk, for supplying counterparty meeting high risk standard, the refiner will terminate business relationship with the party; if the counterparty meets medium risk, the cooperation will be suspended until it meets low risk. The reason and decision will be communicated with the GSCs through face-to-face talk or notification letter.

Step 4

The refiner has undergone annual audits as per LBMA guidance.

Step 5

Audit report and certificate are publicly available in the refiner website:
http://www.sdhjgf.com.cn/news_detail/newsId=740.html.



Assessment findings:				
Category/subcategory	Non-compliance/Observation: Include evidence found to substantiate the non-compliance as well as frequency of its occurrence.	Recommended corrective action	Timeframe for implementing corrective actions	Refiner comments
Choose an item.	No apparent finding	Click here to enter text.	Click here to enter text.	Click here to enter text.

Assessment conclusions	Compliant	Low	Medium	High	Zero Tolerance
Based on the above assessment conclusions, the overall rating of the Refiner's performance is determined to represent:	X				

The Auditors confirm that:

- ✓ The information provided by the Refiner is true and accurate to the best knowledge of the Auditor(s) preparing this report.
- ✓ The findings are based on verified Objective Evidence relevant to the time period for the assessment, traceable and unambiguous.
- ✓ The Auditor(s) have acted in a manner deemed ethical, truthful, accurate professional, independent and objective.
- ✓ The Auditor(s) are properly qualified to carry out the assessment at this Refiner's facility.

Lead Auditor: Chaco LIANG

Signature: Chaco LIANG (On file)

Date: 09 March 2018
