

LBMA Responsible Gold Guidance - Refiner Assessment Report

For third-party audits based on ISO19011:2011.

Prepared for: London Bullion Market Association (LBMA)
Date: 13-16 March 2018
Draft Version 1
**Report
Distribution
List:** Shandong Zhaojin
Gold&Silver Refinery
Co., Ltd

ASSESSMENT INFORMATION	
Refiner Name:	Shandong Zhaojin Gold&Silver Refinery Co., Ltd
Refiner Location:	Gold Industrial Zone, Zhaoyuan, Yantai, Shandong, China
Refiner Contact Person: Name, Title: Email: Phone:	Mr. Sun Xiaohui, Deputy Manager of Sourcing Department Email: 155164151@qq.com Tel: +86-535-8166838
Lead auditor and audit team members	Lead auditor: Chaco LIANG Team auditor: Amos KUANG
Dates and places where the onsite assessment activities were conducted	13.03.2018 - 16.03.2018 Shandong Zhaojin Gold&Silver Refinery Co., Ltd

LBMA Refiner Assessment Report	
Assessment objectives:	
<p><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></p>	
Assessment scope:	
<i>Refiner location(s) included in the assessment scope</i>	Gold Industrial Zone, Zhaoyuan, Yantai, Shandong, China
<i>Assessment Period</i>	01.01.2017 - 31.12.2017
Assessment methodology:	
<p><i>The Assessment teams used a triangulation of findings to evaluate the existence and implementation of appropriate systems at the Refiner, addressing all areas covered by the LBMA Responsible Gold Guidance. Each area of the LBMA Responsible Gold Guidance was verified by documentation review and management/employee interviews, as well as observation during the facility 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 gold supply chain policy, gold supply chain due diligence procedure, gold supplying counterparties' profiles, transaction files, and refinery production records.</i> • <i>The following areas of the facility were visited during the tour: Lab, raw material department, material receiving and sampling room, vault, pulverization, chlorination-Leaching, reduction, washing, drying, melting and ingot casting.</i> • <i>The following interviews were conducted with management: Vice General Manager, Manager of Sourcing Department, Deputy Manager of Sourcing Department, Regional Manager of Sourcing Department, Supervisor of Production Department, Manager of Quality Department, Supervisor of Quality Department, Manager of Management Department, Supervisor of Finance Department, and Regional Manager of Bank Department.</i> • <i>The following interviews with employees were conducted: One female lab analyst, one female material-receiving worker and one male vault keeper.</i> 	



Statement of the confidential nature of the contents:
<p><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></p>
Any significant or inherent limitations or areas not covered that were within the assessment scope:
<p>None</p>
Assessment summary:
<p><i>A full assessment of Shandong Zhaojin Gold&Silver Refinery Co., Ltd was conducted on an announced basis on 13-16 March 2018. A total of 8 man-days were spent conducting the onsite systems reviews.</i></p> <p><i>During the opening meeting, the audit team met with Vice General Manager, Manager of Sourcing Department, Deputy Manager of Sourcing Department, Regional Manager of Sourcing Department, Deputy Manager of Production Technology Department, Clerk of Production Department, Manager of Quality Department, Manager of Management Department, Supervisor of Finance Department, Manager of Sales Department, Regional Manager of Bank Department, and Clerk of Admin Department. The assessment agenda, process and standard, and UL's integrity policy were explained in detail. A full assessment was granted including document review, facility walkthrough, and management and employee interview. Additional key personnel was interviewed during the walkthrough for verification of implementation of LBMA RGG and refiner's procedures.</i></p> <p><i>Areas and activities reviewed during the walkthrough included receiving, weigh in, lot assignment, inventory management, refining, sampling/ assaying and minting. 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> <i>Industrial mining operations (large or small scale): 84%</i> <i>Gold refiner: 6%</i> <i>Traders / brokers: 4%</i> <i>Recycled material/collectors: 4%</i> <i>Bank: 2%</i></p> <p><i>As reported by the refiner, there are totally 255 gold supplying counterparties and totally 3857 transactions happened during the assessment period.</i></p> <p><i>Out of the GSC for the period, 100% are classified as low risk at the time of the verification audit.</i></p> <p><i>The facility specializes in the refining of precious metals. Gold inputs include: Mined crude gold, gold scrap recycled from bar form and jewelry (secondary).</i></p> <p><i>The refiner currently holds a number of certifications, including:</i> <i>LBMA Responsible Gold Certificate, ISO 9001, ISO 14001 and OHSAS 18001.</i></p> <p>Step 1</p>



The refiner has established a Gold supply chain policy in compliance with the LBMA Responsible Gold Guidance and consistent with the model policy set forth in Annex II of the OECD Due Diligence Guidance. The provided refiner's gold supply chain policy is effective as of 1 January 2014 and was recently updated in January 2018. The policy is publicly available on the refiner's website: <http://www.zhaojin.cn/business/yuan-liao-cai-gou.htm>.

The refiner has assigned responsibilities for implementation of the policy, with overall responsibility under Vice General Manager and individual responsibilities at the different levels of the organization, including Sourcing Department, Bank Department, Quality Department, Production Department, Finance Department, Sales Department and Management Department. Sufficient resources are available to support the operation and monitoring of due diligence process.

The refiner provides regular trainings to the relevant employees regarding the policy, at least annually. Usually an exam is provided after the training to ensure employees understand the policy. The responsibilities have been clearly communicated to all relevant employees in Sourcing Department, Bank Department, Quality Department, Production Department, Finance Department, Sales Department and Management Department. The individuals responsible for implementation of due diligence measures on the gold supply chain have been adequately trained regarding their respective tasks. Last training was held on November 25, 2017 for Sourcing Department. The training is about gold supplying counterparty risk assessment procedure. Refresher training is conducted at least annually.

The refiner has communicated the procurement policy to all its Gold supplying counterparties through purchasing contract or commitment letter. During the assessment period, all gold bearing material of the supplying gold refiners are from low risk areas.

Each input of Gold bearing material is assigned a unique reference number upon receipt. Vault keeper under Finance Department is responsible for assigning unique lot number for all received gold bearing material. The reference number was found to correspond to information gathered on supply chain for each input of Gold bearing material. The refiner has established a quarantine procedure. During facility tour, all Gold bearing material was observed to fit the description of material type. The refiner has maintained all related documentation since its first LBMA audit. The record-keeping requirement has been formalized in the written policy.

Manager of Sourcing Department as the compliance officer reports directly to Vice General Manager who is responsible for the implementation of the due diligence policy.

The refiner has a communication mechanism in place that allows employees to voice concerns over the Gold supply chain or any newly identified risk via email and hotline anonymously. Based on interview, employees are aware of the mechanism.

Step 2

The refiner has a system for assessing risk among Gold supplying counterparties according to the LBMA Responsible Gold Guidance. The refiner uses the following forms to assess risk among GSCs: supplier risk assessment form, LBMA supply chain assessment form, LBMA RGG questionnaire and LBMA due diligence checklist. The system allows taking into account risks in the entire Gold supply chain, from the point of origin to the refiner. The risk assessment applies to all inputs of mined Gold and recycled Gold received within the assessment period.

The refiner assesses the Gold supplying counterparty's identity, beneficial owner, business and finance details, purpose of business relationship, plausibility and location of gold origin, capacity, and background, etc. The information is collected based on the refiner's policy and procedure. The refiner verifies the counterparty's identity through onsite visit, local public security bureau, national identity card recognition system, enterprise social credit reference system, website of Ministry of Land and

Resources. No subcontractor is used by the refiner.

All small-scale industrial mining operations are considered to be legitimate after the refiner's assessment.

The refiner has established High Risk Gold Supply Chain Risk Assessment Criteria to formalize risk assessment process. When assigning a high risk rating to a supply chain, the minimum criteria is considered. Based on reliable data, the company uses relevant criteria to determine areas that are conflict-affected, high risk transit areas that carry high risk of human rights abuses, high risk of money laundering, crime or corruption. The refiner collects information on the known reserves or stocks of countries of origin of Gold in order to determine high risk categories. The refiner has assigned a risk level to each Gold supplying counterparty. Totally three risk levels are assigned, including low risk, medium risk and high risk. During the assessment period, all GSCs are assigned as low risk.

Sourcing Department updates GSCs' files annually. No Gold supplying counterparties are affiliated to the government, political parties or military and criminal networks. Employees of Sourcing Department conduct onsite visit of each GSC. The refiner verifies the identity of the Company and identifies the beneficial owners and check the name of the Company and its beneficial owners for each company involved in the Gold supply chain. Last verification was conducted in January 2018.

The refiner has a risk based approach for monitoring transactions to ensure that these are consistent with information on the counterparties' supply chain and risk profile. 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. The refiner systematically requests, gathers and maintains the documentation on file for each lot of Gold-bearing material received. All randomly selected transactional documents during the audit period were provided for review. The verified transactional documents are consistent with the information about the entities' supply chain. Employees from Sourcing Department are designated to be responsible for reviewing the documentation.

Risk assessment procedures are clearly defined as part of the Compliance Officer's tasks. Vice General Manager is responsible for approving new supply chain. There are documented consequences if the risk assessment reporting tasks are not completed, which has been communicated to relevant departments and personnel. The refiner will not cooperate with GSC who is graded as high risk.

Step 3

The refiner has a formalized risk mitigation strategy. Deputy Manager of Sourcing Department is responsible for ensuring that this strategy is carried out. The Refiner has a process to determine that a business relationship should be terminated. Counterparty with high risk, and medium risk without obvious improvement after disclosure will be not included in the refiner's supply chain. Vice General Manager is responsible for the decision. Sourcing Department will communicate the decision including termination reason with the Gold supplying counterparty representative face to face. The quarantined material will be stored within the refiner's primary warehouse, and will not flow into the workshop, until the risk is eliminated by the Gold supplying counterparty. All GSCs' due diligence results are satisfactory.

All GSCs are graded as low risk so far.

Step 4

The refiner has undergone annual audits as per LBMA guidance.

Step 5



LBMA

The refiner has published LBMA Summary Report, LBMA Responsible Gold Certificate and gold supply chain due diligence procedure on its website: <http://www.zhaojin.cn/business/yuan-liao-cai-gou.htm>.



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

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: 16 March 2018
