

LBMA Responsible Gold Guidance - Refiner Assessment Report

For third-party audits based on ISO19011:2011.

Prepared for: London Bullion Market Association (LBMA)

Date: 7-10 March 2017

Draft Version 1

ASSESSMENT INFORMATION	
Refiner Name:	Shandong Zhaojin Gold&Silver Refinery Co., Ltd
Refiner Location:	Gold Industrial Zone, Zhaoyuan Shandong, China
Refiner Contact Person: Name, Title: Email: Phone:	Mr. SUN Xiaohui, Deputy Manager of Sourcing Department Email: zhaojin_sunxiaohui@163.com Tel: +86-535-8166838
Assessment period:	01.01.2016 - 31.12.2016
Audit Type:	Assessment Review
Audit Dates:	March 7-10, 2017
Man-days:	8 man-days
Lead Auditor: Team Auditor:	Chaco LIANG Kelsey LIU

ASSESSMENT CONCLUSIONS						
CATEGORY	SUBCATEGORY	Compliant	Non compliance – risk level			
			Low	Medium	High	Zero Tolerance
General Information						
Step 1: Establish strong Refiner management systems	1.1	x				
	1.2:	x				
	1.3	x				
	1.4	x				
	1.5	x				
Step 2: Identify and assess risk in the supply chain	2.1	x				
	2.2	x				
	2.3	x				
Step 3: Design and implement a management strategy to respond to identified risks	3.1	x				
	3.2	x				
Step 4: Arrange for an independent third-party audit of the supply chain due diligence	4.1	x				
Step 5: Report on supply chain due diligence	5.1	x				

	Non Compliance – risk level
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LBMA

	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				

Assessment scope:

<i>Refiner location(s) included in the assessment scope</i>	Gold Industrial Zone, Zhaoyuan Shandong, China
<i>Assessment Period</i>	01.01.2016 - 31.12.2016

Assessment methodology:

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.

The evidence of compliance that was reviewed included:

- The following documents were reviewed: Refiner's Due Diligence Policy and Procedures, GSCs' files and transaction files
- The following areas of the facility were visited during the tour: Sourcing department, vault, pulverization, chlorination-Leaching, reduction, washing, drying, melting and ingot casting
- The following interviews were conducted with management: Mr. WANG Jianjun (Vice General Manager), Mr. SUN Xiaohui (Deputy Manager of Sourcing Department), Ms. YU Mei (Deputy Manager of Finance Department), Mr. ZHAO Zhibo (Refining Department Manager) and Ms. SUN Zhongying (Deputy Manager of Bank Management Department)

The following interviews with employees were conducted: One female vault keeper, one male production leader and one male production worker

Assessment Summary:

Estimated percentage for each category of the Gold supplying counterparties in the Refiner's supply chain during the assessed period.	LSM: 3.8% ASM: 86% Gold refiner: 4.3% Traders / brokers: 2.6% Recycled material/collectors: 1.4% Bank: 1.4%
Estimated percentage of Gold supplying counterparties for each risk category:	Low Risk: 100% Medium Risk: 0% High Risk: 0%

Types of Gold-bearing material refined:	Mined crude gold and recycled gold
Types of products produced for commercialization:	Standard gold bar
Main processes carried out onsite:	Pulverization, chlorination-Leaching, reduction, washing, drying, melting and ingot casting
Have all recommendations from the previous audit by addressed:	Yes
Any significant or inherent limitations or areas not covered that were within the assessment scope:	
None	
Assessment criteria:	
<ul style="list-style-type: none"> The assessment team took into account all relevant objective evidence provided by the Refiner. Relevant evidence was either qualitative or quantitative in as far as it is appropriate and sufficient to support the assessment team's conclusions. Appropriate evidence is evidence that is relevant and reliable. Sufficient evidence refers to the amount of evidence provided to allow the assessment team to reach a conclusion. Any actual or potential gaps in the Refiner's systems in regards to the LBMA requirements are rated in accordance to the level of risk each presents to the credibility and integrity of the LBMA Responsible Gold Programme for the responsible sourcing of gold-bearing materials. 	
Assessment of compliance with the LBMA Responsible Gold Guidance	
Step 1: Establish strong refiner management systems	
<p>The provided refiner's gold supply chain policy is effective from 1 January 2014. No revision is made on the existing policies. The refiners policy is available publicly at http://www.zhaojin.cn/ywjy/&i=29&comContentId=29.html</p> <p>The policy is applied to the refiner and all business partners in gold supply chain. The policy describes organization and responsibilities of all internal staff involved in the supply chain custody at the refiner. The Vice General Manager is appointed to be responsible for the implementation of the due diligence policy. Based on training records, this policy has been communicated to all employees involved and the trained employees appeared understanding the policies.</p> <p>The Refiner has communicated the procurement policy to its gold supplying counterparties through signing supplying agreement, where the policy is listed.</p> <p>The Enterprise Management Department officer is appointed to be responsible for implementation of due diligence measure on the training. The most recent training was taken on 26 November 2016. The training content is Gold supplying counterparty management system, vault management system etc. The</p>	

participants included financial department, sourcing department and refining department. The refresher training is conducted once every 6 months.

Employees may register concerns through a publicized hotline, email and suggestion box regarding concerns regarding the gold supply chain. This was verified during employee interviews.

Step 2: Identify and assess risk in the supply chain

The Refiner uses the following forms to assess risk among GSCs: supplier risk assessment form, LBMA supply chain assessment form, the LBMA RGG questionnaire and procurement contract review form.

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. Additionally the Refiner uses a National Identity card recognition system and social credit reference system.

The Refiner has a formalized risk assessment process including the Supplier risk assessment form, LBMA supply chain assessment form, LBMA RGG questionnaire and the purchasing contract assessment form.

The Refiner will update information of Gold supplying counterparties (GSC) once every one or two years; if any update is required nationwide, the Refiner will ask for updated information from their GSCs immediately.

The Vice General Manager is responsible for approving new supply chain that is assessed as high risk. Additionally the Vice General Manager, will review the supply chain management status at least once a year.

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

The refiner has a formalized risk mitigation strategy which is supported by senior management. The Deputy Manager of Sourcing Department is responsible for ensuring that the risk mitigation strategy is carried out.

Any Counterparty with high risk or medium risk but without obvious improvement after disclosure will be not included in its supply chain. This decision is handled by the Vice General Manager. The manager of the Refiner will communicate with Gold supplying counterparty representative face to face when a business relationship is terminated.

All quarantined materials 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 counterparties.

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

The refiner conducts annual independent third party audits in accordance with the LBMA Gold Guidance.

Step 5: Report on supply chain due diligence

The refiner publishes the LBMA Summary Report on the refiner's website:
<http://www.zhaojin.cn/ywjy/&i=29&comContentId=29.html>

The refiner has published its due diligence system and commitment on their website.

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				

ADDITIONAL ELEMENTS			
Assessment plan:			
<p>The on-site assessment at each of the selected sites of the Refiner is composed of four (4) parts:</p> <ol style="list-style-type: none"> 1. Opening meeting; 2. Review of objective evidence by means of observation, documentation and interviews; 3. Evaluation of the evidence presented to determine compliance with LBMA requirements; 4. Closing meeting. 			
Day 1: 07 March 2017			
8:30 – 9:30am	Opening meeting with facility management to review the purpose, scope and methodology of the assessment and clarify required documentation		
9:30 – 10:00am	Facility to prepare policy and supplier files		
10:00 – 11:30am	Refining plant tour and onsite employee interview		
11:30am – 1:30pm	Lunch break		
1:30 – 4:30pm	<table border="1" style="width: 100%;"> <tr> <td style="width: 50%;">Team 1: Policy review</td> <td style="width: 50%;">Team 2: Supplier files review</td> </tr> </table>	Team 1: Policy review	Team 2: Supplier files review
Team 1: Policy review	Team 2: Supplier files review		
4:30 – 4:45pm	Assessment team to compile information		
4:45 – 5:00pm	Short debrief with facility team		
5:00pm	Assessment team leaves the facility		

**Day 2: 08 March 2017**

8.50 – 9:00am	Short review of the day's activities with facility team	
9:00am – 11:30am	Audit team 1: Policy review	Audit team 2: Supplier files review
11:30am – 1:30pm	Lunch break	
1:30 – 4:30pm	Audit team 1: Transaction documents review	Audit team 2: Transaction documents review complete
4:30 – 5:00pm	Assessment team to compile information and debrief with facility team	
5:00pm	Assessment team leaves the facility	

Day 3: 09 March 2017

8.50 – 9:00am	Short review of the day's activities with facility team	
9:00 – 10:00am	Management interview	
10:00 – 11:30am	Audit team 1: Transaction documents review	Audit team 2: Transaction documents review
11:30 am – 1:30pm	Lunch break	
1:30 – 2:30pm	Management interview	
2:30 – 4:30pm	Audit team 1: Transaction documents review	Audit team 2: Transaction documents review
4:30 – 5:00pm	Assessment team to compile information and debrief with facility team	
5:00pm	Assessment team leaves the facility	

Day 4: 10 March 2017

8:50 – 9:00am	Short review of the day's activities with facility team
9:00 – 11:30am	Internal discussion and finalize audit checklist/summary
11:30 – 1:30pm	Lunch break
1:30 – 2:30pm	Assessment team held closing meeting with the management team
2:30pm	Assessment team leaves the facility

List of attendees of opening and closing meeting

Both opening meeting and closing meeting: Mr. WANG Jianjun (Vice General Manager), Mr. WANG Xiaoning (Sourcing Department Manager) Mr. SUN Xiaohui (Deputy Manager of Sourcing Department), Mr. LI Shangyuan (Production Technic Department Manager), Mr. ZHAO Zhibo (Refining Department Manager), Mr. YANG Xirong (Q.C. Department Manager), Ms. LIU Bing (Deputy Manager of Q.C. Department), Mr. WANG Haiwei (Enterprise Management Department Manager), Ms. YU Mei (Deputy Manager of Financial Department), Ms. LI Yujuan (Trading Department Manager), Ms. SUN Zhongying (Deputy Manager of Bank Management Department), Mr. LIN Yu (Administration Department Manager)

Refiner feedback

The Refiner's management representative of LBMA RGG System thanked the assessment team during the closing meeting, giving the following feedbacks: They will in future strictly follow the LBMA RGG requirements to consistently meet the standards.

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: On file

Date: 10 March 2017

