



Shandong Gold Smelting Co., Ltd. Supply Chain Due Diligence Management Compliance Report For Year 2020



February 20, 2021



Company name: Shandong Gold Smelting Co., Ltd

Address: No. 888, Longbu Village, Jincheng Town, Laizhou City, Shandong Province

Annual report: Supply Chain Due Diligence Management Compliance Report for Year 2020

Date of reporting: February 20, 2021

Person in Charge: Lin Hong Chief Financial Officer of the company.

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I. Company Profile

Shandong Gold Smelting Co., Ltd. (hereinafter referred to as “the Company”), located in Laizhou City, Shandong Province, is a subsidiary of Shandong Gold Mining Co., Ltd. It aims to be the gold smelting enterprise with “the best technological level, the best safety and environmental protection, and the strongest profitability” in the country, and is committed to promoting various management and technological innovation with a complete industrial chain of high-end, high-efficiency, energy saving and environmental protection from mineral resources to gold terminal products.

Founded in February 2000, the Company went into production in July 2001 and became an independent legal entity in July 2016 by way of survival and separation. On June 1, 2010, with an investment of RMB 658 million by Shandong Gold Mining Co., Ltd., the largest gold smelting industrial project in China- gold concentrate comprehensive recycling



(1,200 tons/day) project was built by the Gold Smelting Co., Ltd. Relying on the advantages of mineral processing technology in China and adopting advanced process equipment and automation technology, the Project aims to solve the three technical problems of production energy saving and environmental protection, comprehensive recovery of mineral resources and zero emissions of production waste water, to form a recycling economy development model of the gold industry, and to build a green industry of energy saving and emission reduction, low-carbon environmental protection, so as to achieve the daily processing of 1,200 tons of gold concentrate, refining capacity of standard gold of 200 tons/year, and silver of 100 tons/year of production scale.

Shandong Gold Smelting Co., Ltd. is one of the first ten “enterprises capable of providing standard gold ingots” certified by the Shanghai Gold Exchange and the first batch of gold ingot brand enterprises recognized by the Shanghai Futures Exchange. With the trademark of “Taishan”, the Company has been supplying standard gold ingots to the Shanghai Gold Exchange since November 2002, mainly including 1000g of AU99.99, 3000g of AU99.95, 100g and 50g of AU99.99 small gold bars supplied to the Shanghai Stock Exchange. In July 2006, the Company became “an enterprise capable of providing standard silver ingots” recognized by the Shanghai Gold Exchange. In March 2009, the Company independently designed and developed the “SD-Gold” brand series of gold and silver investment products for sale in the market. Since



the launch of “Taishan” standard gold and “SD-Gold” brand products on the market, the product percent of pass is 100%, with zero customer complaints and 100 of customer satisfaction rate. The Company has been rated as “Advanced Standard Gold Ingots Supplier” by Shanghai Gold Exchange for many consecutive years.

On January 14, 2010, the Company was qualified as Good Delivery gold and silver refinery by the London Bullion Market Association (LBMA) and was designated as a high-quality product in the international bullion market, marking the quality and scale of gold production in Shandong Gold reaching the international advanced level.

II. Overview of suppliers

The Company’s main sources of raw materials are the gold concentrates produced by the Group’s major mines and the recycled gold purchased from the social market, with all suppliers being low-risk ones.

III. Compliance overview

The Company will perform supply chain due diligence on all suppliers and require that the sources provided by all suppliers shall be legal and compliant.

Step 1: Establish strong company management systems

Compliance statement with requirements.

We have partially complied with Step 1: Establish strong company management systems, non-compliance items found during the audit for the year 2020 has been responded with corrective measurements.



The Company has established strong management systems to ensure that supply chain due diligence is fully implemented by strictly complying with the requirements of “Step 1: Establish strong company management systems” of *LBMA Gold and Silver Responsible Guidelines*.

1. Policy

The Company has adopted and issued a supply chain due diligence policy, which is consistent with the Annex II of *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* and extends to environmental and sustainability responsibilities, and is available on its official website. Corrective action has been taken on the non-compliance items found during the audit for the year 2020, added” Taxes and royalties due to government and support for EITI”

The policy provides that the Company and its suppliers should strictly comply with national laws and regulations on workers’ rights, environmental protection, fair trade, etc., actively engage in the due diligence of the supply chain, ensure the conformity of sources of mineral gold and recycled gold with the LBMA due diligence management requirements, and make commitments to reject gold and silver from high-risk areas such as violation of laws’ requirements on environment protection and sustainable development, human rights violations, conflict areas, bribery, money laundering, terrorist financing, illegal mining, world heritage sites, and mercury mining.



2. Management structure

The Company has established internal management systems to define management, roles and responsibilities, internal audit, and communication, and conduct senior management reviews in accordance with the policies in place.

2.1 Rules and regulations

The Company has developed the *Supply Chain Due Diligence Management Measures*, the *Supply Chain Due Diligence Policy* and the *Supply Chain Risk Mitigation Management Measures* in accordance with the *LBMA Responsible Gold (Silver) Guideline*, which mainly defines organizational structure, responsibilities and high-risk area definition of supply chain due diligence, and establishes assessment criteria, investigation and handling procedures, transaction monitoring, and document preservation for high-risk supply chains. The above systems should be issued as red heading documents and processed as controlled documents after being approved by the General Manager's office, will be revised according to the actual situation every year.

2.2 Responsibilities and authorities

The Company has assigned the Compliance Director, the Compliance Risk Officer and the Compliance Officer.

The Chief Financial Officer of the Company act as the Compliance Officer, who should be in charge of the due diligence in the supply chain of the Company, establish and improve the due diligence management



system of the supply chain, supervise the due diligence process of the supply chain, coordinate and handle the anomalies in the due diligence of the supply chain, and approve compliance reports. In this year the compliance director has been changed from Mr. Yuan Lianbo to Ms. Lin Hong, Ms .Lin Hong is Chief financial officer of the company and has extensive experience of financial management, supply chain management, marketing and gold purchasing.

The Head of the Audit and Risk Control Department acts as the Compliance Risk Officer set up in the Audit and Risk Control Department, who is in charge of developing and updating the due diligence policies and systems of the supply chain, and should develop evaluation criteria for high-risk supply chain and implement the due diligence measures of the supply chain; direct, coordinate and report the risk assessment, response and implementation of the Company; supervise and inspect the implementation of departments; and report abnormalities in the due diligence of supply chain, and organize training, etc.

The Compliance Officer is assigned by the Marketing Department, Marketing Department II, Quality Inspection Center, Finance Department, and refining workshop, and is in charge of strictly implementing due diligence measures and evaluation criteria of supply chain. He should collect and maintain sufficient supply chain supporting documentation, establish files for supplier due diligence, and conduct periodical on-site investigations of key suppliers.



3. Strong internal traceability system

The Company has established a system of supply chain traceability to collect and maintain supply chain data for each batch of products, assigning a unique number to each batch of products.

3.1 Supply chain traceability system

Credit investigation will be conducted for all suppliers, after which contract and social commitment letter of suppliers will be signed for ensuring that materials are legal and consistent with the due diligence policy of LBMA; All batches of incoming materials provided by suppliers are attached with incoming materials acceptance sheet indicating type, weight before and after melting, expected grade and signature of acceptance personnel as well as suppliers; the fused product will be sampled for laboratory test before it forms into standard gold finally, which will be allocated with sole number and sold through the Shanghai Gold Exchange.

3.2 Data maintenance

Relevant records including ID card, ID verification data, business license, qualification verification data, due diligence questionnaire of suppliers, acceptance sheet, test sheet and settlement sheet of each batch shall be kept for more than 5 years before the commencement of business.

3.3 Training

The management training for supply chain due diligence will be incorporated into the Company's annual training plan by the Company



annually with organization of training for the Company's staff responsible for key positions and Compliance Officer on the requirements, contents of the due diligence management of supply chain and LBMA Responsible Gold and Silver Guidance. This year's training focus on the LBMA Responsible Gold Guidance Version 8, pay special attention to aspects of environment protection and sustainable development, so as to ensure the implementation of the due diligence management of supply chain.

A training for special topics has been conducted with attendees included persons in charge from Marketing department, 2nd Marketing department, Finance department, Quality inspection center, refining workshop and compliance officer, explained the requirements of LBMA due diligence and the due diligence management policy, regulations and process of the company in details, advised complaint method, focus on the study of <LBMA Responsible Gold Guidance > (Version 8), pay a close attention to environmental protection and sustainable development to make sure the supply chain due diligence could be fully conducted.

3.4 Compliance Officer

The Company assigns the person in charge of the Audit and risk Control Department as Compliance Officer, who shall be responsible for all matters concerning the due diligence management of supply chain, including the review for supply chain due diligence especially with evaluation of the sufficiency of due diligence and collection of additional documents or information if necessary. By doing this, it is to ensure that



implementation of corresponding matters can be conducted in the case of high-risk supply chain or trade. The Compliance Officer is responsible for staff training on the responsibility of supply chain, preparation and updating of supply chain policies, and provision of proper information used for responsibility fulfillment for senior managers.

3.5 Payment through the official bank channel

The Business Department of the Company will initiate the procedure of joint signature for matters related to fund before the Company pays for products. The payment will be made online through the bank where the basic account of the Company is applied with print of the bank receipt as the attachment of payment evidence to be kept.

4. Efforts to strength cooperation and provide assistance for the trading party of gold supply to build ability of due diligence

The Company encourages the establishment of a trust-based and mutually-recognized relationship with suppliers especially suppliers that adhere to the Annex II of OECD *Due Diligence Guidance for Responsible Supply Chain of Minerals from Conflict-Affected and High-risk Areas* and suppliers added with those who are responsible for environment and sustainability.

All suppliers of the Company have signed the *Social Commitment Letter for Supplier*, promising that the gold is obtained from legal and compliant place with refusing gold from high-risk areas specified in LBMA. Suppliers of all types of mines shall provide mining licenses.



Invoices of downstream customers among key customers of the Company shall be recorded so as to avoid the risk of ticket arbitrage.

5. Establishment of confidential complaint mechanism

The Company shall provide accesses on its official website and publish phone and email for employees and personnel concerning interior interests to express their concerns about supply chain or any new identified risk, and protect their privacy including the information of the informer and prevent any attack and retaliation from happening.

Step 2 Identification and evaluation of the risk for supply chain

Compliance statement with requirements:

We have partially complied with Step 2: Identify and assess risk in the supply chain, non-compliance items found during the audit for the year 2020 has been responded with corrective measurements.

The Company has made criteria standard for supply chain with high risk in strict accordance with the requirements of step2 “identification and evaluation of the risk in supply chain” of the LBMA responsible gold and silver guidance with making treatment procedures for the risk identified resulting in a full identification and evaluation for risk in supply chain. High-risk supply chains have not been found up to now.

1. Identification of risk in supply chain

The Shandong Gold Smelting Co., Ltd identifies relevant risk, and closely focus on the gold obtained from human rights infringement, armed conflicts, illegal exploitation, exploitation and use of mercury and



from areas including world heritage and sites, and the gold used for bribery, money laundering, terrorism financing and other actions according to the Annex II of OECD *Due Diligence Guidance for Responsible Supply Chain of Minerals from Conflict-Affected and High-risk Areas* with adding of responsibility for environment and sustainability. The Company files all suppliers and investigates them according to the risk situation of the Company. The files of suppliers are set up completely before the contract is signed.

2. Evaluation of risk in supply chain

2.1 Investigation for supply chain

The following measures are used for the due diligence for supply chain by the Company:

(1) **Qualification verification.** All suppliers will subject to the management of due diligence for supply chain by the Company. Cooperation party is required to provide corresponding documentary evidence for qualification before cooperation, corporate client shall provide business license, and individual client shall provide the copy of ID card. In addition, the mine client shall provide mining licenses, environmental assessment certification, and concerns miners about wearing labor protection appliances, healthy and safe trading as well as physical examination for occupational diseases.

(2) **Establishment of the file of suppliers.** Detailed investigation for information including basic situation of suppliers, information of



shareholders, type and origin of raw materials provided, type of precious metals to be refined, settlement method with its suppliers, general situation of its suppliers etc. is conducted with efforts to extend the investigation of supply chain to the upstream of suppliers as much as possible so as to determine the risk level and terminate the cooperation with suppliers involving in high-risk standards.

(3) Establishment of incoming materials registration book。 Date, weight, origin of raw material and major upstream suppliers of the batch of incoming materials are investigated and registered so as to determine the risk level of incoming materials.

(4) Establishment of work process for annual investigation report of suppliers. The top three in terms of the incoming quantity of gold and silver excluding the bank will be subject to the special due diligence with forming annual investigation report of suppliers including: general situation of suppliers, qualification information, type and proportion of incoming materials, general situation and list of upstream supplier, origin and variety of raw materials, and the fact whether there is foreign gold, etc.

(5) Establishment of work process for special investigation report of clients. The origin of raw material is traced during the visit to clients with informing the suppliers of the due diligence management policy of the Company with requirement of their signature signed on the policy.

(6) Assistance for outsourcing processing plant to implement due



diligence. The origin of raw materials from the outsourcing processing plant is traced and we help its suppliers to build the due diligence system.

(7) Implementation of due diligence for the destination of products. The due diligence for the destination of products is implemented for client buying gold of more than 30kg at a time or more than 100kg gold cumulatively, and clients buying silver of more than 2000kg at a time or more than 5000kg cumulatively. We make full use of the internet with websites including Tianyan Cha.com and China Judicial Process Information Online to search information including qualification of suppliers, defaulting situation , lawsuit situation and punishment situation and terminate the cooperation with suppliers involving high-risk behaviors.

Through due diligence, all suppliers have been identified as low risks, all raw materials are from low risk areas, no raw materials from Hengxiang Gold has been found, we will pay continue attention on Hengxiang Gold.

2.2 High-risk supply chain

The following criteria for high-risk supply chain are hereby stipulated according to relevant rules of LBMA and OECD combined with the actual situation of the Company:

(1) Mined gold or recycled gold are originated from, transit from or transported passing high-risk areas where human rights are affected or infringed;



(2) It is claimed that the mineral gold is from a country featuring limited storage, limited resources or limited output predicted;

(3) Recycled gold is from high-risk area known where human rights are affected or infringed, or it is suspected that the recycled gold is transited from the area with reasons;

(4) Companies in the supply chain or other known upstream companies are located in a country with high risks including money laundering, crime and corruption;

(5) The benefit owner of companies in the supply chain or other known upstream companies is sensitive personnel politically;

(6) Companies in the supply chain or other known upstream companies actively participate in high-risk commercial activities including: weapons, gambling, gambling industry, antiques and artworks, diamonds, religion and religious leaders;

(7) The mineral gold is obtained from small mine with incomplete procedure in domestic and illegal exploitation, and the exploited gold is exploited manually;

(8) Mined gold or recycled gold is produced with mercury;

(9) Mineral gold or recycled gold is originated from world heritage sites or domestic natural ecology conservation areas, which violating legal requirements for environment and sustainable development;

(10) Other high-risk situation.

The supply chain is determined as high-risk chain where any one of



the criteria above exists objectively. Compliance Officers of department shall prepare material and report to the special Compliance Risk Officer immediately who then reports it to the Compliance Director who approves and takes measures to suspend the trade and remove the risk.

2.3 Classifications of high risk

Measures for Supply Chain Risk Mitigation Management are made by the Company. The trade shall be suspended and reported to the Compliance Officer for approval before it is reported to department of government when it is originated from high- risk areas through supply chain investigation; the smelting of mineral gold and recycled gold shall be suspended immediately when they are found from high-risk areas through due diligence until the supplier provides additional data or information that can prove that it is impossible within 6 months. The trade shall be suspended immediately and reported to relevant personnel where relevant evidences are not provided within 6 months.

Data provided include:

(1) Governmental document proving that there is no systematic or extensive infringement for human rights related to the extraction of mineral gold, recycled gold and transportation as well as trade, such as the legitimate proof issued by the local public security or commercial department, etc.

(2) Documentary evidence that showing there is no direct or indirect support provided for illegally armed organizations;



(3) Documentary evidence proving that there is no concealing on the origin of mineral gold or recycled gold through fraud, such as the certificate of origin issued by relevant department of government;

(4) Documentary evidence proving there is no money laundering or terrorism financing;

(5) Documentary evidence for the qualification of domestic small mine is provided;

(6) Data proving that the exploited gold is not produced with mercury is provided;

(7) Policies and system document related to environmental and sustainable development are provided and the environment impact assessment report of relevant department is qualified;

2.4 Trade monitoring

The situation of all trades is under the supervision of the Company to ensure that the trade is consistent with supply chain investigation.

The Company checks the due diligence of the supply chain to ensure that the number of every batch of incoming material is sole and the production can be traceable. All raw materials shall be procured and warehoused with complete receipt data kept, and the gold concentrate warehoused is kept with weighing sheet, moisture sheet, grade sheet, statement sheet and financial voucher, etc. Crude gold and silver warehoused is kept with incoming acceptance sheet, grade sheet, statement sheet and financial voucher, etc. Data to be collected and kept



during daily work by every department are determined clearly, of which the relevant receipts are kept by the Marketing Department, Division II of Marketing Department, Quality Inspection Center and Financial Department who send relevant data to archive rooms for filing. The period of storage shall be longer than 5 years.

3. Report to senior manager about the risk evaluation

Risk evaluation report system is built by the Company, and the Compliance Officer report to the Compliance Risk Officer in terms of the due diligence work of department monthly. The trade shall be suspended and it shall be reported to the Compliance Director for approval before it is reported to the department of government when supply chain is found from high-risk areas through investigation and evaluated as high-risk supply chain. Non-compliance items found during the audit for the year 2020 has been corrected, risk assessment conclusion on gold and silver raw materials suppliers must be approved by compliance officers and high management.

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.

Requirements in step 3 “Design and implement a management strategy to respond to identified risks” of the LBMA responsible gold and



silver guidance is observed strictly by the Company. As no high-risk supply chain was found in 2020, measures for supply chain risk mitigation were not taken.

Measures for Supply Chain Risk Mitigation Management is made by the Company as document control management, which stipulates the treatment for violations found during evaluation of suppliers and implementation process of daily businesses; it set standards for the treatment steps for high-risk behaviors of suppliers if found; it clearly stipulates the responsibility of organizations and personnel at all levels of due management.

Incoming materials from suspected high-risk areas shall be registered singly and the refining workshop shall be informed of smelting its raw material singly. Its raw material shall not be mixed with material of other clients during the whole technological process. The finished gold and silver produced from its material shall be numbered singly and stored in place of gold warehouse separated from other finished gold and silver. For raw materials related to violation of the principles of environment and sustainable development, should be identified as high risks, should be registered, smelted, coded and stored separately.

Step 4: arrange for an independent third-party audit of the due diligence practice of refiner

Compliance statement with requirement:

We have fully complied with Step 4:arrange for an independent



third-party audit of the due diligence practice of refiner.

Requirements in Step 4 “arrange for an independent third-party audit of the due diligence practice of refiner” of the LBMA responsible gold and silver guidance is observed strictly by the Company.

The company hired Bureau Veritas to conduct the third-party audit according to standard ISAE3000, audit report could be reviewed on the link <http://www.sd-gold.com/>.

Step 5 annual report of supply chain due diligence

Compliance statement with requirement:

We have fully complied with Step 5: report of supply chain due diligence.

Requirements in step 5 “report of supply chain due diligence” of the LBMA responsible gold and silver guidance is observed strictly by the Company.

The Company publishes the site audit situation summary and evaluation report of the last year; certificate of due diligence management, system of supply chain management and policy of supply chain due diligence on the website of Shandong Gold Group Co., Ltd annually.

IV. Conclusion of management

In conclusion, Shandong Gold Smelting Co., Ltd implemented effective management system, procedure, process and practice within the financial year as of December 31, 2020 during the reporting period based on the requirements in *LBMA Responsible Gold Guidance*.



Shandong Gold Smelting Co., Ltd is devoted to making improvement and development constantly and all correction measures are monitored regularly inside. The plan for correction action is sent to the execution agency of LBMA and management personnel of *LBMA Responsible Gold Guidance*.

V. Other report remarks

If users of this report wish to provide any feedback to Shandong Gold Smelting Co., Ltd. with respect to this report, feel free to contact us by E-mail: luyiming@sd-gold.com