

Shandong Gold Smelting Co.,Ltd
2023 Supply Chain
Due Diligence Management Compliance
Report



General Manager:

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January 16 2024

Revised date: April 11, 2024



In accordance with the requirements of the ninth edition of the Responsible Gold (Silver) Guidance issued by the LBMA, which emphasizes the fight against systematic or widespread human rights violation, conflict avoidance, and compliance with high standards for anti-money laundering and counter-terrorism financing, the Company continues to improve its gold (silver) supply chain due diligence management system, clarify organizational structures and responsibilities, optimize investigation procedures, and carry out due diligence through multiple channels. This report summarizes Shandong Gold Smelting Co., Ltd.'s compliance with the requirements of the *LBMA's Responsible Gold Guidance and Responsible Silver Guidance* in 2023.

Company Name: Shandong Gold Smelting Co., Ltd.

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

End Date of Annual Report Period: December 31, 2023

Report Date: January 16, 2024

Revised Date: April 11, 2024

Head of Report: Lin Hong, Chief Financial Officer of the Company

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I. Company Overview

Shandong Gold Smelting Co., Ltd. (hereinafter referred to as the Company), which is affiliated with Shandong Gold Mining Co., Ltd., is located in Laizhou City, Shandong Province. With the goal of being the gold smelting enterprise with the superior technological capacity, exemplary safety and environmental protection, and unparalleled profitability in the country, the Company is committed to promoting various management and technological innovations, and has a high-end, efficient, energy-saving and environmentally friendly complete industry chain from mineral resources to gold end products.

The Company was founded in February 2000, put into operation in July 2001, and became an independent corporate enterprise through the method of split-off in July 2016. On June 1, 2010, Shandong Gold Mining Co., Ltd. invested RMB658 million to build China's largest gold smelting industrial project - 1200 tons/day gold concentrate comprehensive recycling engineering project through its gold smelting subsidiary. Relying on the advantages of China's mineral processing technology, the project adopts advanced process equipment and automation technology, targeting the three major technical difficulties of production energy conservation and environmental protection, comprehensive recovery of mineral resources, and zero discharge of production waste water. It has formed a circular economy development model for the gold industry, and has become a green industry with energy



conservation, emission reduction, and low-carbon environmental protection. It has reached a production scale of 1200 tons of gold concentrate per day, 200 tons of refined gold per year, and 100 tons of silver per year.

Shandong Gold Smelting Co., Ltd. is one of the first ten companies in China certified by the Shanghai Gold Exchange as “Providers of Standard Gold Ingots” and also one of the first gold ingot brands registered with the Shanghai Futures Exchange. The Company’s registered trademark is “TAISHAN”. Since November 2002, it has been supplying standard gold ingots to the Shanghai Gold Exchange. Its main products include 1000g of AU99.99, 3000g of AU99.95, 100g of AU99.99, and 50g gold ingots. In July 2006, it became a certified “Provider of Standard Silver Ingots” for the Shanghai Gold Exchange. In March 2009, the Company independently designed and developed the “Shandong Gold” brand series of investment gold and silver products for sale in the market. Since the launch of “TAISHAN” standard gold and “Shandong Gold” branded products, the product qualification rate has been 100%, with zero customer complaints and a 100% customer satisfaction rate. For several consecutive years, it has been recognized by the Shanghai Gold Exchange as an “Advanced Enterprise for Providing Standard Gold Ingots.”

On January 14, 2010, Shandong Gold won the qualification of Good Delivery Gold and Silver Refiner issued by the London Bullion Market



Association (LBMA), which was identified as a high-quality product in the international gold and silver market, marking that its production quality and scale have reached the international advanced level.

II. Supplier Overview

The company primarily relies on two sources for its raw materials: gold concentrates produced by mines within the group and recyclable gold acquired from the society. All suppliers, totaling 62, are domestic and low risk. Specifically, mined gold contributes 21.81% to the raw material mix, while company recycled gold and individually recycled gold account for 25.26% and 52.94%, respectively. Notably, all the gold and silver, whether mined or recycled, come from within China.

III. Compliance Overview

The company diligently investigates the supply chain of all suppliers, ensuring they comply with legal regulations and provide legitimate and compliant sources.

Step 1: Establishing a Robust Company Management System

Compliance Statement and Requirements:

Our Company has made partial progress in adhering to Step 1: Establishing a Robust Company Management System.

The Company strictly abides by the requirement of “Building a Robust Company Management System” as the first step in LBMA’s



Responsible Gold and Silver Guidance, and has established a robust management system to ensure that the supply chain due diligence is fully implemented.

1.1 Company's Gold and Silver Supply Chain Due Diligence Policy

In 2023, in order to further prevent and mitigate the risks of conflict minerals and/or adverse environmental, social, and governance (ESG) factors in the Company's supply chain, the Company has updated its gold and silver supply chain due diligence policy in accordance with the requirements of the Ninth Edition Guidance. The updated policy aligns with Annex II of the OECD's *Responsible Supply Chain Due Diligence Guidance of Minerals from Conflict-Affected and High-Risk Areas* and extends to address adverse ESG factors in the supply chain.

The policy mandates that companies and their suppliers adhere strictly to national laws and regulations pertaining to worker's rights, environmental conservation, sustainable development, and fair trade. Furthermore, they must actively engage in supply chain due diligence to ensure that the sourcing of mined gold and recycled gold adheres to the LBMA's due diligence management standards. Additionally, they must commit to refusing gold and silver originating from high-risk regions associated with human rights violations, support for illegal non-state armed groups or public/private security forces, bribery, tax evasion, money laundering, conflict escalation, disregard for environmental and



sustainable development laws, conflict zones, terrorist financing, illegal mining, world heritage sites, and mercury mining.

In 2023, the Company revised the *Supply Chain Due Diligence Policy* and the *Supply Chain Due Diligence Management Measures* in accordance with the requirements of the 9th Edition of LBMA Responsible Gold Guidance. These documents were approved by the Party Committee on December 26, 2023, and subsequently issued and implemented. They were also made public on the Company's official website to ensure the continuous and effective operation of the Company's gold and silver due diligence management system.

1.2 Internal Management Organizational Structure

1.2.1 Organizational Structure and Responsibility

The Company has established a supply chain due diligence management system and defined the organizational structure and management responsibility. The Company has a Compliance Director, Compliance Risk Officer, and Compliance Officer.

The CFO of the Company doubles as the Compliance Director, overseeing the due diligence of the supply chain, developing and enhancing its management system, monitoring the process, resolving exceptions, and approving compliance reports. Ms. Lin Hong, who also serves as the CFO of the Company, is appointed as the Compliance Director. Her extensive experience in financial management, supply chain operations, market expansion, and gold procurement makes her an ideal



fit for this role.

The Compliance Risk Officer is located in the Audit and Risk Control Department and is appointed by the head of the department. Their responsibilities include developing and updating supply chain due diligence policies and regulations, setting criteria for high-risk supply chain assessments, executing supply chain due diligence measures, guiding, coordinating, and reporting on the Company's risk assessments, responses, and implementations. Additionally, they oversee and inspect the implementation of these measures across various departments, evaluate their effectiveness, report any exceptional circumstances encountered during supply chain due diligence, and organize training sessions.

Compliance Officers are designated by the Marketing Department, Marketing Department II, Quality Inspection Center, Finance Department, and Refining Workshop, responsible for strictly enforcing supply chain due diligence measures and high-risk supply chain evaluation standards, collecting and saving enough supply chain proof documents, establishing supplier due diligence records, and conducting regularly on-site investigations of important suppliers.

In 2023, the company strictly implemented the *Supply Chain Due Diligence Policy* and *Supply Chain Due Diligence Management Measures* to conduct supply chain due diligence in accordance with the requirements, investigate the qualifications of all suppliers, monitor all



transactions, and did not establish relationships with zero-tolerance supply chains and high-risk supply chains. At the same time, all raw material procurement business has signed contracts and supplier commitments. The contracts are signed in strict accordance with the approval procedures stipulated by the Company, and all suppliers have committed that the raw material sources comply with the requirements of the gold and silver guidance. This year, the Company did not experience any assessment or penalties due to inadequate investigation or false reporting of materials.

1.2.2 Training

The Company includes supply chain due diligence management training in its annual training plan and organizes training sessions for key positions and compliance officers on the requirements, content, and LBMA Responsible Gold and Silver Guidance of supply chain due diligence management.

In 2023, a theme training session was conducted once, with participants including the heads of Marketing Department, Marketing Department II, Finance Department, Quality Inspection Center, and Refining Workshop, as well as Compliance Officers. The training provided detailed explanations on LBMA due diligence management requirements, as well as the Company's due diligence management policies, systems, and processes. It also informed participants about reporting methods and focused on training on the *9th Edition LBMA*



Responsible Gold Guidance, with a particular emphasis on environmental protection and sustainable development, ensuring that supply chain due diligence management is effectively implemented.

1.2.3 Payment via Official Bank Channels

When the Company pays for goods, the business department initiates the joint signature procedure for fund matters and pays online through the bank where the Company's basic account is located. The bank receipt is printed and retained as an attachment for vouchers. The Company does not support any cash transactions.

1.2.4 Cooperation with Government Agencies

The Company holds a staunch commitment to fostering strong relationships with government agencies, fully cooperates with them in their work, and provides necessary materials and information.

1.2.5 Maintaining Documents

Before commencing business operations, it is necessary to preserve relevant records such as ID card, identity verification materials, business licenses, qualification verification materials, supplier due diligence forms, acceptance sheets, test reports, settlement sheets, and other pertinent documents for a period of at least five years.

1.3 Establishing Internal Trace System

The Company has established a supply chain trace system to collect and maintain supply chain information for each batch of products, and assign a unique identification number to each batch of products.



All suppliers will undergo credit investigation. After passing the credit investigation, they will sign a contract and a supplier social commitment letter, promising that the raw materials are legal and comply with the LBMA due diligence policy. For each batch of incoming materials delivered by the supplier, there is an incoming acceptance sheet indicating the product type, weight before and after melting, and estimated grade. The acceptance personnel and the supplier sign and confirm it. The melting sampling and testing are then performed, and finally, standard gold is formed and assigned a unique identification number for trading through the Shanghai Gold Exchange.

1.4 Strengthening the cooperation relationship between the Company and supply chain partners

The Company encourages the establishment of long-term relationships based on trust and mutual recognition with suppliers, especially suppliers who comply with Annex II of the OECD's *Responsible Supply Chain Due Diligence Guidance of Minerals from Conflict-Affected and High-Risk Areas* and expand this to environmental and sustainable responsibilities.

All suppliers of the Company have signed contracts and the *Supplier Social Commitment Letter*, promising that the gold sources are legal and compliant and refusing gold from high-risk areas specified by LBMA. All mining suppliers should provide mining licenses and certificates that can prove their compliance with regulations on environmental protection and



sustainable development, such as green factory certification materials. For major customers of the Company, the downstream customer invoices should be filed to avoid the risk of false invoices. The Company conveys the supply chain due diligence policies and requirements to suppliers, who are aware of the Company's supply chain due diligence and have also issued statements indicating their willingness to cooperate with the Company to carry out supply chain due diligence.

1.5 Establishing a confidential complaint mechanism

The Company has established a confidential complaint mechanism, utilizing its official website platform (<http://www.sd-gold.com/>) to publish contact numbers and email addresses. This allows employees and external stakeholders to express concerns regarding the supply chain or any newly identified risks, while protecting the privacy of employees throughout the complaint process. The Company ensures confidentiality of whistleblowers' information and eliminates any form of retaliation. In 2023, the Company did not receive any complaints from employees or external stakeholders.

Step 2: Identifying and Evaluating Supply Chain Risks

Compliance Statement and Requirements:

Our Company has made partial progress in adhering to Step 2: Identifying and Evaluating Supply Chain Risks. In response to the non-conformance items identified during the 2023 audit, we have



implemented corrective measures.

The Company strictly abides by the requirements of the second step of LBMA gold and silver responsibility guidance, which is the identification and evaluation of supply chain risks. The Company has established zero tolerance supply chain and high-risk supply chain determination standards, and stipulated handling procedures for identified risks, fully identifying and evaluating risks in the supply chain. In 2023, no zero tolerance supply chain and high-risk supply chain were found. In January 2024, LBMA entrusted BV external audit to propose two non-compliance items: one is that 2023 annual financial data of all 14 recycled gold suppliers were not collected, and the other is that two individual suppliers did not identify the intermediate refining plant. After receiving these problems, the Company actively took measures to rectify them and completed the rectification in February.

2.1 Conducting Supply Chain Due Diligence to Identify Potential Risks

According to the Annex II of the OECD's *Responsible Supply Chain Due Diligence Guidance of Minerals from Conflict-Affected and High-Risk Areas* and extending to adverse ESG factors in the supply chain, the Company identifies relevant risks, paying close attention to gold from areas that do not comply with legal requirements on environmental and sustainable development, infringe upon human rights,



armed conflicts, illegal mining, mercury exploitation, and gold originating from world heritage sites, as well as gold used for bribery, money laundering, terrorist financing, and other acts. The Company establishes supplier profiles for each supplier, fills out KYC questionnaires, completes the establishment of supplier profiles before signing contracts with them, and conducts risk ratings on them.

2.1.1 Supply Chain Investigation

The Company carries out due diligence investigation of the supply chain through the following measures:

(1) Qualification verification. The Company carries out due diligence management of the supply chain for all suppliers. Before cooperation, the cooperative party is required to provide corresponding qualification certificate documents. For legal person customers, a business license is required; for individual customers, ID card copy is required; for mine customers, mining licenses, environmental impact assessment certificates, as well as miner labor protection, health and safety transactions, occupational disease physical examination and other materials are required. Site visits will be conducted for mines and legal person customers, and site visit reports and freely selected employment survey questionnaires will be submitted.

(2) Establishing supplier files. Conduct detailed investigations on the basic information of suppliers, shareholder information, types and origins of raw materials provided, types of planned refined precious metals,



settlement methods with their suppliers, and an overview of their suppliers. Establish a supply chain map to extend the supply chain investigation upstream as far as possible to ultimately determine the risk level. Terminate cooperation with suppliers involved in zero-tolerance supply chains and high-risk supply chains.

(3) Establishing an incoming material registration book. Conduct investigation and registration of the date, weight, raw material source, and main upstream suppliers of the incoming materials from suppliers in the current batch, and judge the risk level of the incoming materials.

(4) Establishing a workflow for annual supplier research reports. Conduct a special due diligence on the top three suppliers of gold and silver materials throughout the year excluding banks, and form an annual supplier investigation report that includes the following content: supplier profile, qualification information, incoming material types and their proportion, upstream supplier profiles and lists, raw material origin and variety, and the presence of foreign gold, etc.

(5) Establishing a workflow for special customer research reports. Upon visiting customers, trace the origin of raw materials, communicate the due diligence management policies of the Company to suppliers, and require them to sign on the policies.

(6) Assisting the outsourced processing factories in performing due diligence management. Trace the origin of raw materials for these factories and help them establish a due diligence management system for



their suppliers.

(7) Conducting due diligence on the destination of products. For gold and silver sales businesses, conduct due diligence on the destination of products for customers who purchase gold in a single transaction exceeding 30 kilograms or cumulatively exceeding 100 kilograms, as well as for customers who purchase silver in a single transaction exceeding 2,000 kilograms or cumulatively exceeding 5,000 kilograms. Fully utilize network resources, including websites such as Tianyancha and China Trial Information Network, to inquire about suppliers' qualifications, creditworthiness, litigation records, and penalties. Terminate cooperation with suppliers involved in zero-tolerance or high-risk behaviors.

2.1.2 Identify Risks of Material Type

The Company will take additional due diligence measures for different types of purchased materials and the scale of procurement business. The main raw materials of the Company come from major mines within the group and recycled gold purchased domestically. Based on the due diligence of different purchased materials, risks in the supply chain are identified and evaluated.

2.1.3 Monitoring Transactions

The Company monitors all transactions to ensure consistency with supply chain investigations. The Company conducts checks on supply chain due diligence, ensuring that each incoming batch has a unique



number for trace. Complete documentation is maintained for all raw material purchases and storage, including weighing sheets, moisture sheets, grade sheets, settlement sheets, and financial vouchers for gold concentrates; and incoming acceptance sheets, grade sheets, settlement sheets, and financial vouchers for alloy gold and silver. Each department is required to collect and preserve specific documentation in their daily work. The Marketing Department, Marketing Department II, Quality Inspection Center, and Finance Department are responsible for preserving the relevant documents and regularly sending them to the archive for storage, with a retention period of more than 5 years.

2.2 Classification of Supply Chain Based on Basic Risk Conditions

According to the 9th Edition of the Responsible Gold Guidance and the relevant provisions of the OECD Annex 2, and considering the adverse ESG factors in the gold supply chain, the Company has formulated the criteria for judging zero tolerance supply chain and high-risk supply chain, determined two major categories of zero tolerance supply chain and high-risk supply chain, and will review and update them regularly.

2.2.1 Zero-Tolerance Supply Chain

After due diligence and risk assessment, if a supply chain is identified as a zero-tolerance supply chain, the Company will terminate the existing relationship with the supplier and cease any further



cooperation. Criteria for assessing a zero-tolerance supply chain:

- (1) Mined gold from areas designated as world heritage sites;
- (2) Procurement of mined or recycled gold in violation of international sanctions;
- (3) Suppliers of mined or recycled gold, other known upstream companies, or ultimate beneficiaries involved in money laundering, fraud, terrorism, human rights violations, or directly or indirectly supporting illegal non-state armed organizations.

In 2023, through due diligence, the Company identified zero-tolerance supply chains. During this period, the purchased gold and silver raw materials did not come from the aforementioned zero-tolerance supply chains.

2.2.2 High-Risk Supply Chain

After due diligence and risk assessment, if it is found to belong to a high-risk supply chain, the company will trigger enhanced due diligence and take necessary measures to strengthen investigation of suppliers.

High risk supply chain evaluation criteria:

- (1) Mined gold or recycled gold is sourced from, transited through, or transported through conflict-affected or high-risk areas that infringe upon human rights;
- (2) Mined gold is claimed to be sourced from a country with a known limited reserve, limited resources, or limited expected production;
- (3) Recycled gold is sourced from known conflict-affected and



high-risk areas that infringe upon human rights, or there is reason to suspect that it has been transited through such areas;

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

(5) The beneficial owners of Companies in the supply chain or other known upstream companies are politically sensitive figures;

(6) Companies in the supply chain or other known upstream companies actively participate in high-risk business activities, such as weapons, gamble, gambling, antiques and art, diamonds, religion, and religious leaders;

(7) Mined gold is sourced from small mines with incomplete domestic procedures, illegal mining, and gold mining derived from artisanal mining;

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

(9) Legal requirements pertinent to environmental and sustainable development are not abided by, and mined gold or recycled gold is sourced from world heritage sites or domestic natural ecological protection areas;

(10) Other high-risk situations.

When any of the above criteria exist objectively, the supply chain will be judged as a high-risk supply chain. The department Compliance Officer shall immediately prepare materials and report to the Compliance



Risk Officer, who will then report to the Compliance Director. The Compliance Director will approve the adoption of response measures, stop transactions, and eliminate risks.

In 2023, through due diligence, the Company identified high-risk supply chains, and during this period, the purchased gold and silver raw materials did not come from the aforementioned high-risk supply chains.

2.3 Taking Enhanced Due Diligence Measures for High-Risk Supply Chains

When a high-risk supply chain is triggered, the company will enhanced due diligence measures and conduct on-site investigations or inspections of the gold and silver production areas. The on-site investigations will include but are not limited to:

(1) Conduct on-site inspections or visits to high-risk supply chains to verify the authenticity of document records of supply chain due diligence results;

(2) Verify the due diligence information of all links involved in the supply chain, including producers, intermediaries, traders, exporters, and transporters, from mines to companies, using reliable and independent sources of documents, data, and information;

(3) Before any transaction occurs, or at least 6 months after the start of the business relationship;

(4) Conducted by capable employees or independent third-party consultants, who have no conflict of interest with the supplier and



promise to report truthfully and accurately;

(5) Consult relevant internal and external interest stakeholders where applicable;

(6) Use on site investigation report template in the investigation toolkit;

(7) Track the number and severity of issues identified and recorded in the improvement plan;

According to the type of raw materials, enhanced due diligence measures can be taken during on-site investigations or remotely depending on the situation, including the following steps:

1. The strengthened due diligence measures for high-risk large-scale mining of gold and silver supply chains include but are not limited to:

(1) Conduct KYC activities proportionally in a location-based high-risk supply chain from mines to companies(including gold and silver producers, intermediaries, gold and silver traders, exporters, and transporters);

(2) Understand the nature of public or private safety services provided in mines and through supply chains;

(3) Assess the militarization risks of mines and transportation routes, as well as direct or indirect support for illegal non-state armed organizations and public or private security forces;

(4) Review human rights risk assessments and due diligence conducted by or on behalf of mines to determine the risk of any serious



human rights violations committed by one party in mines, transportation routes, gold and silver transactions, and export processes;

(5) Estimate the number of artisanal and small-scale miners with producer franchising rights;

(6) Evaluate the payment of taxes, fees, and royalties by the supply side to government agencies in mineral mining, trade, and export;

(7) Evaluate payments or compensation made by the supply chain to government agencies and officials, public or private security forces, or other armed organizations from the start of mining, unless prohibited by law;

(8) Assess compliance with environmental, health, safety, labor, community, business integrity regulations, policies, and good practices identified in the preliminary due diligence.

2. Enhanced due diligence measures for high-risk manual and small-scale gold and silver mining supply chains should include but are not limited to:

(1) Conduct KYC activities proportionally in a location-based high-risk supply chain from mines to companies (including gold and silver producers, intermediaries, gold and silver traders, exporters, and transporters);

(2) Collect information on government, political, or military contacts with suppliers of small-scale manual mining, as well as direct or indirect support for illegal non-state armed organizations and public or private



security forces;

(3) Collect evidence of serious human rights violations committed by either party in mines, transportation routes, and gold and silver export transactions;

(4) Assess the degree of militarization of mines and transportation routes, as well as the risks of directly or indirectly supporting illegal non-state armed organizations or public or private security forces;

(5) Assess the conflict or tension between large-scale mining and manual small-scale mining;

(6) Assess the risks, doubts, or reports of other sources of gold and silver being introduced into deceptive statements without knowledge;

(7) Assess the storage, processing, and use of mercury, as well as its impact on the environment and employee health;

(8) Assess the applicability of other environmental, social, and governance risk management practices related to issues identified during initial due diligence.

3. The enhanced due diligence measures for high-risk recycled gold and silver from intermediate refiners should include but are not limited to:

(1) Obtain an independent assurance report on responsible procurement practices of intermediate refiners;

(2) Confirm the ultimate beneficiary of the supplier;

(3) Any additional on-site investigation activities can be delegated



to an independent third party.

4. The enhanced due diligence measures taken for high-risk recycled gold and silver from other sources should include but are not limited to:

(1) Check the government attention list information of every gold and silver company located in high-risk areas, and participate in the supply chain from trading counterparties to refiners (including transporters);

(2) Interview selected management and on-site personnel to determine and confirm supply chain due diligence practices, procurement, anti-money laundering, and counter-terrorism financing procedures;

(3) Assess whether the supply chain due diligence capability of the counterparty in the transaction is proportional to the risk;

(4) Evaluate the appropriateness of the risk classification method for counterparties in transactions;

(5) Randomly sample and evaluate due diligence records to confirm that the procedures are conducted in accordance with the supply chain due diligence policies of the counterparty;

(6) Evaluate on-site investigation reports on high-risk supply chains of trading counterparties based on samples.

Once the company discovers that it belongs to a high-risk supply chain, it will trigger enhanced due diligence. The company will form an enhanced due diligence team under the leadership of a compliance risk officer, consisting of professionals in finance, legal, marketing, and risk



compliance related fields. The team will conduct on-site inspections of suppliers and intermediate refineries every six months, For high-risk areas affected by conflicts that cannot be reached on site, the company will initiate remote investigations, collect supplier information in advance, and use direct video connections for remote viewing, The inspection content includes but is not limited to: business type, material type, source description, transportation method, number of upstream suppliers, transaction method, etc. The investigators will truthfully record, retain evidence, and accurately report. In 2023, the company did not have a high-risk supply chain, so the enhanced due diligence work was not triggered. However, the company conducted an annual on-site investigation of domestic mining enterprises involved in the supply chain and edited the on-site investigation report.

Step 3 Designing and Implementing Strategies to Address Identified Risks

Compliance Statement and Requirements:

Our Company has made fully progress in adhering to Step 3: Designing and Implementing Management System to Address Identified Risks.

The Company strictly abides by the requirements of the third step of the LBMA gold and silver responsibility guidance, which is Designing



and Implementing Strategies to Address Identified Risks. In 2023, no zero-tolerance or high-risk supply chains were found.

The Company revised the *Supply Chain Due Diligence Policy* and *Supply Chain Due Diligence Management Measures* as managed documents, stipulating the handling methods for violations found during supplier evaluation and daily business operations; standardizing the handling steps for discovering high-risk behaviors of suppliers; and clarifying the responsibilities of organizations and personnel at all levels for due diligence management.

If it is discovered that a supplier belongs to a zero-tolerance or high-risk supply chain, the Company will immediately stop or suspend its cooperation with the partner.

For suspected high-risk incoming materials, they are separately registered and informed to the refining workshop for separate smelting. Throughout the entire production process, they are not mixed with other customers' materials. The finished gold and silver products produced from these materials are separately numbered and stored in a separate area from other finished gold and silver products in the vault. All incoming materials that violate environmental and sustainable development principles are treated as high-risk materials, which are separately registered, smelted, numbered, and stored in separate areas.

3.1 Risk Management Strategies Based on Identified Risks

The Company has determined the risk management strategies based



on risk assessment, which includes terminating relationships, suspending relationships, and maintaining relationships.

3.1.1 Confirming Termination of Relationships to Avoid Risks

If through robust due diligence or comprehensive assessments of on-site investigations and other information, the Company discovers clues indicating that a supplier is involved in money laundering, financing of terrorist activities, severe human rights violations, direct or indirect support for illegal non-state armed organizations, or deceptive misrepresentation of mineral sources, the Company shall immediately terminate its cooperation with the supplier. For suppliers whose cooperation has been terminated, the Company shall, in accordance with applicable domestic and international laws, report such cases to relevant departments and LBMA.

3.1.2 Confirming Suspension of Relationships and Mitigating Risks While Suspending Transactions

If there is reasonable suspicion through robust due diligence that a supplier is involved in money laundering, financing of terrorist activities, severe human rights violations, direct or indirect support for illegal non-state armed organizations, deceptive misrepresentation of mineral sources, or catastrophic ESG impacts, the Company shall suspend the procurement of gold (silver) materials from that supplier until more information and evidence are obtained. If the supplier provides additional information/data to refute the initial suspicions or responds promptly and



appropriately to address the environmental, social, and governance (ESG) impacts, smelting operations can resume upon approval by the Compliance Risk Control Officer.

3.1.3 Confirming the Relationship between Maintaining and Improving Plans to Reduce Risks while Continuing Transactions

If no potential problems or a few problems are found through robust due diligence, including bribery, non-fraudulent misstatements about the source of minerals, failure to comply with government tax, fee, and royalty policies, serious violations of local environmental, health, safety, labor, and community-related legislation, and/or high risks of environmental, social, and management issues that are likely to have a significant adverse impact, suppliers can provide risk solutions that include clear improvement plans and timetables. After being reviewed by the Company's compliance team and approved by the Compliance Risk Control Officer, the Company can establish normal cooperative relations with the supplier. The risk solution should include clear performance goals, performance evaluation indicators based on quantitative and qualitative analysis, and a reasonable completion date.

3.2 Monitoring Improvement Plan

Based on the principle of integrity, when maintaining relationships with suppliers and implementing improvement plans, the Companies should take measurable steps, performance monitoring, regularly reassess risks, and regularly report to the Compliance Director.



Risk monitoring should determine significant and measurable improvement measures to eliminate risks within the first six months of implementing the improvement plan. Based on the progress made in six months, additional measures should be specified in the revised improvement plan. Formal performance assessments should be conducted to determine if the measures have been appropriately implemented by the deadline (such as through audits, follow-up on-site visits, or remote reviews).

To facilitate monitoring activities, stakeholders such as local government agencies, upstream companies, international or civil society organizations, and affected third parties should be consulted as appropriate to leverage their networks.

After the established six-month period for improving relationships, if limited or no measurable improvement is demonstrated, the cooperation relationship should be suspended until the supplier responds to the improvement plan. If attempts to reduce risks and improve performance fail, the relationship should be terminated.

According to the due diligence results in 2023, there were no supplier management strategies that required risk mitigation. All supplier cooperation relationships are ongoing and good, and there have been no instances of terminated or suspended relationships.

3.3 Regular Report

The Company has established a risk assessment report system, and



the Compliance Officer submits a monthly due diligence report to the Compliance Risk Officer. When supply chain investigation discovers any transactions from high-risk areas and the supply chain is evaluated as high-risk, such transactions will be stopped and reported to the Compliance Director for approval and then submitted to the relevant government departments. In 2023, the Company conducted a risk assessment on all suppliers, and the Compliance Risk Officer has reviewed the results and submitted a report to the Compliance Director.

3.4 Continuously Monitoring the Appropriateness of Risk Management Strategies

The Company has established a dynamic supply chain due diligence process. If there are any changes in the supply chain, the Company will conduct due diligence again to ensure effective risk management.

Step 4: Conducting Independent Third-Party Audits on the Due Diligence Practices of Refiners

Compliance Statement and Requirements:

Our Company has made fully progress in adhering to Step 4: Arranging Third-Party Audits for Supply Chain Due Diligence.

The Company strictly abides by the requirements of the fourth step of LBMA Gold and Silver Responsibility Guidance, which is “Conducting Independent Third-Party Audits on refiners’ due diligence



practices.”

The Company hired Bureau Veritas Certification (Beijing) Co., Ltd., Shanghai Branch, to conduct audits. The Company has performed reasonable assurance services in accordance with international standards, namely ISAE3000 services, excluding historical financial information audits or reviews (ISAE3000). In January 2024, LBMA commissioned BV external audit and raised two non-compliance items, one of which was high-risk and the other was medium-risk. The Company rectified and completed the rectification in February, and BV Company followed up with audits in April, verifying on site that the two non-compliance items had been closed. The audit report will be published on the Company’s official website after the completion of the annual audit.

Step 5 Annual Supply Chain Due Diligence Report

Compliance Statement and Requirements:

Our Company has made fully progress in adhering to Step 5: Report about Supply Chain Due Diligence.

Our Company strictly abides by the requirements of the fifth step of LBMA Responsible Gold and Silver Guidance, which is “Supply Chain Due Diligence Annual Report.”

The Company annually publishes a summary and evaluation report of the previous year’s on-site audits, due diligence management



certificates, supply chain management policies, and supply chain due diligence policies on the official website (<http://www.sd-gold.com/>). This information is available for download by other stockholders.

III. Management Conclusion

In summary, Shandong Gold Smelting Co., Ltd. has established and improved its supply chain due diligence management system in accordance with the requirements of the LBMA Responsible Gold (Silver) Guidance. We have identified and assessed supply chain-related risks, designed and implemented risk management strategies, and undergone independent third-party audits for our supply chain due diligence. Additionally, we have disclosed audit results, company policies, regulations, and certifications on our official website. Therefore, for the fiscal year ending December 31, 2023, Shandong Gold Smelting Co., Ltd. fully complies with the LBMA Responsible Gold (Silver) Guidance.

In the next phase of work, the Company will strive for continuous improvement, effectively integrating responsible procurement principles and due diligence procedures into internal management systems, procedures, processes and practices. It will regularly monitor any identified corrective measures internally. Corrective action plans will be conveyed separately to the LBMA executive body and the management personnel of the LBMA Responsible Gold (Silver) Guidance.



VI. Others

If any users of this report wish to provide feedback, please feel free to contact us at 0535-2697916 or 2697917, or via email at 157620089@qq.com.