

Henan Zhongyuan Gold Smelter Co., LTD

Refiner's Compliance Report

The LBMA Responsible Gold Guidance has been established for Good Delivery Refiners to adopt high standards of due diligence in order to combat systematic or widespread abuses of human rights, to avoid contributing to conflict and to comply with high standards of anti-money laundering and combating terrorist financing practice.

This report summarizes how Henan Zhongyuan Gold Smelter Co., LTD has complied with the requirements of the LBMA Responsible Gold Guidance.

Table1: Refiner's details

Refiner's name: Henan Zhongyuan Gold Smelter Co., LTD

Location: Jinchang Road, Sanmenxia City, Henan, China

Reporting year-end: 31/12/2012 and 31/12/2013

Date of report: 24/03/2014

Senior management responsible for this report: Peng, Guomin (General Manager)

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Refiner's evaluation

Henan Zhongyuan Gold Smelter Co., LTD (Hereinafter referred to as Zhongyuan Smelter) is a well-known enterprise specialized in gold smelting and refining. It is also one of the key enterprises in Sanmenxia, Henan province. Zhongyuan Smelter's main business comprises gold (including the by-product of silver, cathode copper, copper powder, lead powder, sulfur powder, sulphuric acid) refining and sales, and the acquisition, production, processing and sales of non-standard gold, gold and silver.

In 2011, Zhongyuan Smelter was certified under the GB/T 19001-2008/ISO 9001:2008 Quality Management Standard, the GB/T 24001-2004/ISO 14001:2004 Environment Management Standard, and the GB/T 28001-2001 Occupational Health and Safety Management Standard. These three standards cover products and process

of gold ingots, silver ingots, sulfuric acid, copper cathode, iron oxide pigments, ammonium sulfate and its by-product of lead.

Zhongyuan Smelter is the subsidiary of Zhongjin Gold Corporation Limited, an A-share listed company in China. As a part of listed company, Zhongyuan Smelter has to comply with Chinese listed companies internal control regulation <The Basic Standard for Enterprise Internal Control> and Supporting Guidance and complete a self-assessment and report of the internal controls. Controls of procurement are included especially in <The Basic Standard for Enterprise Internal Control> and Supporting Guidance, which requiring enterprises set up a scientific system of supplier evaluation to formalize qualified supplier list and to evaluate qualified suppliers comprehensively.

Table2: Summary of activities undertaken to demonstrate compliance

Step 1: Establish strong company management systems

Compliance Statement with Requirement:

We have not complied in the year ended 31 December 2012, nevertheless have fully complied in the year ended 31 December 2013 with Step 1: Establish strong company management systems.

Company Policy: In 2012, after receiving the <LBMA Responsible Gold Guidance>, we organized related departments and staff to study the requirements and came up with a detailed implantation plan. After a series of preparation and communication, we drafted the <Responsible Gold Supply Chain Due Diligence Management Policy of Henan Zhongyuan Gold Smelter Co. LTD (Draft Version)> and adopted this policy company-wide in early 2013. Meanwhile, Zhongyuan Smelter decided to appoint the Head of Legal Department to act as the Compliance Officer and carry out the responsibilities of due diligence. At the end of 2013, after nearly one year's test run of policy, Zhongyuan Smelter collected feedback and suggestion from related departments and revised the policy for improvement. Zhongyuan Smelter established and issued the final gold supply chain policy on 16th Dec 2013, named <Responsible

Gold Supply Chain Due Diligence Management Policy of Henan Zhongyuan Gold Smelter Co., LTD> (Hereinafter referred to as “Responsible Gold Supply Chain Due Diligence Management Policy”), which is consistent with the model set out in <Annex II of OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas >. This policy sets out our responsibility for conducting risk-based due diligence, screening and monitoring of transactions and the governance structures in place. The policy also identifies the responsibilities of the Senior Management Committee, Compliance Officer, two Gold-bearing Material Procurement Departments during the due diligence process. Criteria for high-risk gold supply chain, communications with gold-supplying counterparties, maintaining records and training are also covered in the policy.

Internal Management Structure: An internal management system has been set up to define the governance, roles and responsibilities, communication and senior management review as per the adopted due diligence policy. The Senior Management Committee, the governing body of due diligence management, is responsible for reviewing <Responsible Gold Supply Chain Due Diligence Management Policy>, appointing Compliance Officer to manage routine work of due diligence and authorizing the Deputy General Manager in charge of the two Gold-bearing Material Procurement Departments (Mined Gold Procurement Department and Recycled Gold Procurement Department) to review the due diligence results and risk management strategy. The Compliance Officer is responsible for compiling and updating <Responsible Gold Supply Chain Due Diligence Management Policy>, reviewing the due diligence results submitted by the two Gold-bearing Material Procurement Departments, evaluating the effectiveness of risk management strategy, coordinating the gold supply chain training and reporting directly to Senior Management Committee when necessary. The Mined Gold Procurement Department and Recycled Gold Procurement Department are responsible for supplier evaluation prior to contracting, monitoring of transactions with approved suppliers and an annual reevaluation process. The Human Resource Department and Supervision Department also play important roles in due diligence process.

The Senior Management Committee holds committee meeting at least once a month. In the meeting held on 16th Dec 2013, the members of committee reviewed and

approved <Responsible Gold Supply Chain Due Diligence Management Policy>, reviewed the results of due diligence for new suppliers in 2013 and appointed Decai Qi to be the Compliance Officer.

The Compliance Officer Decai Qi is the Head of Legal Department and the Head of Company Secretary Office and is experienced in legal and gold supply chain area. On 27th Dec 2013, Zhongyuan Smelter officially issued the notice of appointment Mr. Decai Qi as Compliance Officer. All the responsibilities of a Compliance Officer are stated in the notice.

Internal System: Based on the requirement of <LBMA Responsible Gold Guidance>, we supplemented the requirements related to due diligence, such as human rights abuse, anti-money laundering and combating terrorist financing to our existing supplier evaluation progress. We also optimized the process of due diligence in order to enhance the controls and transparency over gold supply chains. As a part of daily routine work, Recycled Gold Procurement Department and Mined Gold Procurement Department perform supply chain due diligence. According to <Responsible Gold Supply Chain Due Diligence Management Policy>, staff at these two Gold-bearing Material Procurement Departments should monitor every single transaction in order to identify any potential risks in the supply chain. At the end of each year, Recycled Gold Procurement Department and Mined Gold Procurement Department should do the annual revaluation based on any change in suppliers' information and risk management strategies if applicable. In 2013, the two Gold-bearing Material Procurement Departments conducted the due diligence process for all existing suppliers following a risk-based approach. Specific documents that related to supplier risk assessment and transactions are well maintained. All the due diligence findings and results were reviewed and approved by the Compliance Officer and Senior Management Committee.

Engagement with Gold-supplying Counterparty: According to <LBMA Responsible Gold Guidance>, we compiled a <Declaration for Responsible Gold Supply Chain> which is consistent with the requirements in <Annex II of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas> . Staff from Recycled Gold Procurement Department

and Mined Gold Procurement Department are responsible for ensuring that all gold-supplying counterparties sign the declaration before contracting to ensure that they are aware of company's commitment to <LBMA Responsible Gold Guidance>, our supply chain policy and respective requirements. In this declaration, gold-supplying counterparties should commit to, and acknowledge in writing that there is no serious human rights abuse associated with the extraction, transport or trade of minerals, no direct or indirect support to non-state armed groups, no direct or indirect support to public or private security forces and no bribery and fraudulent misrepresentation of the origin of minerals, money laundering. Also, the payment of taxes, fees and royalties related to mineral extraction, trade and export from conflict-affected and high-risk areas are paid to governments. All suppliers contracted in 2013 have signed the declaration.

Communication Mechanism: In order to help all staff involved in the gold supply chain to have a thorough understanding of standards of due diligence system, Mined Gold Procurement Department and Recycled Gold Procurement Department developed 3 batch of training programs focused on understanding the <LBMA Responsible Gold Guidance> and <Responsible Gold Supply Chain Due Diligence Management Policy> in 2013. Meanwhile, the policy and issuing notice has been put onto the Office Automatic System, through which every staff can gain access. All employees can read the <Responsible Gold Supply Chain Due Diligence Management Policy> on the bulletin board near the gate of company. We also built a company-wide communication mechanism to promote broad employee participation and risk identification to risk management. Employees are welcomed to voice their concerns over the gold supply chain or any newly identified risk via hotline, E-mail or mailboxes.

Step 2: Identify and assess risk in the supply chain

Compliance Statement with Requirement:

We have not complied in the year ended 31 December 2012, nevertheless have fully complied in the year ended 31 December 2013 with Step 2: Identify and assess risk in the supply chain.

Risk Identification for Gold-bearing Material Supplier: In the <Responsible Gold Supply Chain Due Diligence Management Policy>, we clarified approach for risk identification in the supply chain and conducted the risk identification based on this approach. Before entering into a business relationship, Mined Gold Procurement Department and Recycled Gold Procurement Department need to complete a <Responsible Gold Supply Chain Due Diligence Form – New Supplier> and collect supplier information including: company type, registration location, and transaction type.

For large-scale mined gold suppliers, origin of mined gold and mining licenses should be obtained and import/export licenses should be obtained if applicable; for artisanal and small-scale mining suppliers, mining licenses should be obtained to prove their legalities; for recycled gold and secondary gold suppliers, the policies and practices related to anti-money laundering and combating terrorist financing should be obtained.

The Mined Gold Procurement Department obtained the relevant certifications of mined gold suppliers in 2013. For secondary and recycled gold suppliers, if there is no direct policy related to anti-money laundering and combating terrorist financing existing, the Code of Conduct of secondary and recycled gold suppliers had been checked, all of which included the requirements of prevention of bribery and corruption. Each secondary and recycled gold supplier's financial policy requires that all the income and expenditure of transaction need supportive documents, thus avoiding the risk of money laundering and financing of terrorism. The company will strengthen the requirements on secondary and recycled gold suppliers' direct policy related to anti-money laundering and combating terrorist financing to manage their own upstream risks in future.

As at 31st Dec 2013, the Mined Gold Procurement Department and Recycled Gold Procurement Department have completed risk identification of all existing suppliers.

Risk Assessment for Gold-bearing Material Supplier: In <Responsible Gold Supply Chain Due Diligence Management Policy>, we defined the method to evaluate high risks and to conduct the annual revaluation.

Before entering into a business relationship, Recycled Gold Procurement Department and Mined Gold Procurement Department performed new supplier due diligence with respect to company and country risks. We defined the following six criteria in assessing high-risk. Country risks include:

- (1) The mined gold or recycled gold originates from or has been transported through a conflict-affected or human right abuse area (high risk area or human right abuse area is reference to Heidelberg Barometer);
- (2) The mined gold or recycled gold is claimed to originate from a country that has limited known reserves or stocks, likely resources or expected production levels of gold;
- (3) The mined gold or recycled gold is claimed to originate from a country through which gold from conflict-affected and high-risk areas is known or reasonably suspected to transit.

Company risks include:

- (1) Supplier or its up-stream company is located in a high risk country that is related to money-laundering, criminal or corruption;
- (2) Supplier or its up-stream company or beneficial owners are politically exposed person;
- (3) Supplier or its up-stream company is active in a higher-risk business activity such as arms, gaming and casino industry, antiques and art, diamond merchants, sects and their leaders.

If any of above risk events occurs, we would define the supplier as high-risk supplier and wouldn't build business relationship with them. If any of those risk events are likely to occur, we would not enter the business relationship before an authorized investigation. If none of those risk events occur, we would establish business relationship as a 'normal cooperation' with this supplier.

During the transaction process, Recycled Gold Procurement Department and Mined Gold Procurement Department should also monitor and assess the risk. We collected suppliers' information based on transaction type and origin of transaction area. We would suspend the relationship and report to the Compliance Officer if the 'normal cooperation' may be potentially involved in money laundering, financing of terrorism,

conflicted-affected and high-risk areas or violations of human rights. If there is solid evidence to prove that supplier is involved in money laundering, financing of terrorism, conflicted-affected and high-risk areas or violations of human rights, we would abandon the relationship immediately.

As at 31st Dec 2013, we completed all the risk assessment for existing suppliers. All country risks are low as all gold-bearing material suppliers were based in China except one from Coeur Alaska Inc. According to related transaction records, Coeur Alaska Inc.'s supplies originated from Alaska, the United States. In the past years, the mined gold supplied in Chinese market was insufficient for Zhongyuan Smelter's needs. The mined gold from Coeur Alaska Inc. is in good quality with competitive price and great service. China Gold Group has established a long-term procurement relationship with Coeur Alaska Inc. Those are the reasons why we imported mined gold from this company.

For company risks, 10.61% of suppliers (based on the number of suppliers) are stated-owned enterprises, 6.1% of suppliers are subsidiaries of China Gold Group, 11.61% of are small-scale mining suppliers, and the rest are private companies. We collected the company type, registration location and transaction type of suppliers. We also checked whether the recognizable beneficial owners of supplier are on the terrorist organization list published on People's Republic of China Ministry of Public Security's website and whether the recognizable beneficial owners have obtained the antique trading certificates. Currently, for private company, we have collected suppliers' business licenses to identify beneficial ownership. For some suppliers, the legal person listed on the business license is the only beneficial owner. For other suppliers, there is more than one beneficial owner other than the one listed on business license. We will improve our process on the identification of all beneficial owners of suppliers in 2014. Meanwhile, we assessed the commodity risk of our suppliers by reconciling between goods delivery notes and our own assay reports and by checking whether supplies are transported through high risk area. No high or medium risk suppliers were identified in 2013.

Risk Assessment Report for Gold-bearing Material Supplier: The Compliance Officer is responsible for reviewing the authenticity, validity and completeness of due

diligence and then reporting to the Deputy General Manager in charge of the two Gold-bearing Material Procurement Departments. The Deputy General Manager in charge of the two Gold-bearing Material Procurement Departments reviews and signs off the due diligence report, and asks for Senior Management Committee's approval when necessary.

All <Responsible Gold Supply Chain Due Diligence Form – New Supplier> were reviewed by the Compliance Officer in 2013. In the Senior Management Committee meeting held on 16th Dec 2013, all the committee members approved the suppliers' due diligence results.

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

Compliance Statement with Requirement:

We have not complied in the year ended 31 December 2012, nevertheless have fully complied in the year ended 31 December 2013 with Step 3: Design and implement a management strategy to respond to identified risks.

Risk Management: We take diverse risk management strategies based on different due diligence results. Where the result of the due diligence is not fully satisfactory, but the assessed company in the supply chain is using reasonable and good faith effort, we will continue to refine gold coming from this source provided that it adopts an improvement strategy stating clear performance objectives within a reasonable timeframe. If the result of the gold supply chain due diligence concludes that there is money laundering, terrorist financing, contribution to conflict, human rights abuses, or if the possibility of the same is deemed high, we will stop immediately to refine gold from this source until additional information or data confirming or refuting the preliminary assessment.

For new supplier which has risk resolution with specific schedule, the two Gold-bearing Material Procurement Departments are responsible for overseeing the implementation of risk resolution. Compliance Officer should review the results regularly.

According to the due diligence results for 2013, there was no supplier that need a management strategy of risk mitigation.

Continuous Monitoring: At the end of each year, the two Gold-bearing Material Procurement Departments are responsible for collecting all changes to suppliers' information, the on-going monitoring results of transactions and conducting the annual supply chain due diligence reevaluation to decide whether to continue cooperation. The annual review of each supplier should be signed off by the Compliance Officer, and if necessary the Senior Management Committee prior to contract being reissued.

All suppliers were evaluated based on <Gold Supply Chain Due Diligence Form – New Supplier> in 2013. The annual review was not conducted in 2013 and will be implemented from 2014.

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

Compliance Statement with Requirement:

We have fully complied with Step 4: Arrange for an independent third-party audit of the supply chain due diligence.

We engaged the services of the assurance provider Deloitte Touche Tohmatsu Certified Public Accountants LLP Beijing Branch on 30th Dec 2013. They performed a reasonable assurance engagement in accordance with International Standard in Assurance Engagements ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000). Deloitte's assurance report can be found in attached document.

Step 5: Report on supply chain due diligence

Compliance Statement with Requirement:

We have fully complied with Step 5: Report on supply chain due diligence.

Further information and specific details of how our systems, procedures, processes and controls have been implemented to align to the specific requirements in the <LBMA Responsible Gold Guidance> have been set out in our gold supply chain policy. <Responsible Gold Supply Chain Due Diligence Management Policy> can be found in Appendix 1.

Zhongyuan Smelter's overall conclusion

Table 3: Management conclusion:

In 2012, existing supply chain process and controls were in operation as good business practice and we spent the year understanding and preparing the requirements of the <LBMA Responsible Gold Guidance> and related documents. We drafted an implementation plan based on our practical situation. But due to the wide range and substantial content of due diligence, we were not fully compliant with <LBMA Responsible Gold Guidance> in the year ended 31 December 2012.

In the early 2013, based on last year's implementation plan, we preliminarily performed due diligence with all the related departments and staff involved. Then we built a gold supply chain management system, identified and assessed risk in supply chain, designed and implemented a risk management strategy, arranged for an independent third-party audit of supply chain due diligence and compiled a report on supply chain due diligence during 2013. We have therefore fully complied with <LBMA Responsible Gold Guidance> in the year ended 31 December 2013.

In the next phase of work, we are committed to continuous improvement and aim to combine the responsible gold supply chain process with our existing supply chain process more effectively. Any corrective action identified will be monitored internally on a regular basis.

Table4: Other report comments

If users of this report wish to provide any feedback to us with respect to this report, feel free to contact us by telephone +86398216008 or E-mail zyyl@zjgold.com.