

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: 31/12/2014

Date of report: 20/03/2015

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 fully complied with Step 1: Establish strong company management systems.

Company Policy: The Company has officially issued <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> in 2013. This policy sets out our responsibility for conducting risk-based due diligence, screening and monitoring of transactions and the governance structures in place. According to the <LBMA RGG Questionnaire>, <LBMA Due Diligence Checklist>, <LBMA Supply Chain Assessment Form> and other instruments that released on LBMA official website in October 2014, we revised <Responsible Gold Supply Chain Due Diligence Management Policy> and

related templates. The updated policy was officially issued on 22nd December 2014. The policy requires that Gold-bearing Material Procurement Department should depend on the nature of transaction to distribute <Responsible Gold Supply Chain Questionnaire - Mined Gold> or <Responsible Gold Supply Chain Questionnaire - Recycled Gold> to suppliers respectively. Based on the <Due Diligence Checklist - Mined Gold> and <Due Diligence Checklist - Recycled Gold>, the Gold-bearing Material Procurement Department should complete due diligence procedure for new suppliers and fill out the <Responsible Gold Supply Due Diligence Form> and then formulate the risk management strategies.

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 Gold-bearing Material 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 Gold-bearing Material Procurement Department, evaluating the effectiveness of risk management strategy, coordinating the gold supply chain training and reporting directly to Senior Management Committee when necessary. Gold-bearing Material Procurement Department is responsible for supplier evaluation prior to contracting, monitoring of transactions with approved suppliers and an annual revaluation 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 Dec 15th 2014, the members of committee reviewed and approved the revised edition of <Responsible Gold Supply Chain Due Diligence Management Policy>, reviewed the results of Responsible Gold Supply Chain due diligence for new suppliers in 2014.

Internal System: In 2014, we followed the <Responsible Gold Supply Chain Due Diligence Management Policy> strictly and conducted risk-based due diligence investigation for suppliers. All the transactions were monitored to avoid the suppliers associated with high risk. Meanwhile, all due diligence investigation findings and results were reviewed by the Compliance Officer and approved by the deputy General Manager. Given the changes in suppliers and risk management strategy, Gold-bearing Materials Procurement Department has conducted annual supplement due diligence assessment for suppliers. The results were reviewed by the Compliance Officer and the deputy General Manager and approved by the Senior Management Committee.

Engagement with Gold-supplying Counterparty: Staff from Gold-bearing Materials Procurement Department should ask all gold-supplying counterparties to 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 2014 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, Gold-bearing Material Procurement Department has launched training programs in February and March 2014, focusing on how to effectively integrated <Responsible Gold Supply Chain Due Diligence Management Policy> with regular supplier access management; how to manage the supplier information. On the training programs, staff from Gold-bearing Material Procurement Department are also encouraged to share experience and communication skills about supplier investigation. Meanwhile, the revised edition of policy and issuing notice has been uploaded onto the Office Automatic System, through which every staff can gain access to see the policy. 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 fully complied 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 business relationship, Gold-bearing Material Procurement Department needs to complete a <Responsible Gold Supply Chain Due Diligence Form> and collects 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 Gold-bearing Material Procurement Department obtained the relevant certifications of mined gold suppliers in 2014. 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 2014, the Gold-bearing Material Procurement Department has completed risk identification of all the 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, Gold-bearing Material 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, the Gold-bearing Material 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 2014, we completed all the risk assessment for new suppliers. All country risks are low as all new gold-bearing material suppliers were based in China.

We collected the company nature, 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. We have improved our work on the identification of benefit owners of private company. By taking the advantage of National Enterprise Credit Disclosure System platform (<http://gsxt.saic.gov.cn/>), we were able to check on suppliers' information regarding to shareholders/benefit owners.

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 2014.

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 Gold-bearing Material Procurement Department. The Deputy General Manager in charge of the Gold-bearing Material Procurement Department reviews and signs off the due diligence report. Any contract whose term is longer than one year should be approved by Senior Management Committee. Only in the case that risk management strategy is identified as 'normal', can the purchase transaction be made.

All <Responsible Gold Supply Chain Due Diligence Form - New Supplier> were reviewed by the Compliance Officer in 2014. In the Senior Management Committee meeting held on 15th Dec 2014, 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 fully complied 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 2014, there was no supplier that need a management strategy of risk mitigation.

Continuous Monitoring: At the end of each year, the Gold-bearing Material Procurement Department is responsible for collecting all changes to suppliers' information, the on-going monitoring results of transactions and conducting the annual supply chain due diligence revaluation to decide whether to continue cooperation.

At the end of 2014, Gold-bearing Material Procurement Department conducted annual supplement risk assessment for all the supplier other than new suppliers. Compliance Officer has reviewed the assessment result. In the Senior Management Committee meeting held on Dec 15th 2014, the management reviewed and approved the assessment result. There is no supplier whose assessment result is identified as "Suspend Cooperation" or "Terminate Cooperation".

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 9th Jan 2014. They performed a limited 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.

To align to the specific requirements in the <LBMA Responsible Gold Guidance>, we prepare and report <The Refiner's Compliance Report> on time. Other stakeholders could contact us to obtain a copy of <The Refiner's Compliance Report> via telephone and email.

Zhongyuan Smelter's overall conclusion

Table 3: Management conclusion:

Overall speaking, in 2014 we have improved the RGG supply chain management system, identified and assessed the associated risk for our suppliers, designed and implemented risk management strategy, conducted independent third-party audit for supply chain due diligence investigation. We have therefore fully complied with <LBMA Responsible Gold Guidance> in the year ended 31st December 2014.

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.