



June 2013

**LBMA Responsible Gold Guidance –
Summary Assessment Report**
For third-party audits based on ISO19011:2011

According to LBMA provision this document has to be made publicly available by the refiner.

Company Name:	Inner Mongolia Qiankun Gold and Silver Refinery Share Company Limited.
Reference Standard: LBMA RGG	Other ref.: ISO 19011:2011

Audit Team	
Team Leader:	Team Member:
Mr. Henry Teng	N/A

Type of Audit	Date of Opening Audit	Date of Closing Audit	Total n° of man/days
Full assessment Audit	29/Jan./2018	30/Jan./2018	2MD
Assessment Review			
Follow-up Assessment			

Site(s) address(es):	East of Yuan Jing Er Road, Ruyi Development Zone, Huhhot, Inner Mongolia, China.
Refiner Contact Person:	Ms. Lafang Zhao
Name, Title:	Ms. Lanfang Zhao, Quality inspection center manager
Email:	714151083@qq.com
Phone:	(86) 13804741616

	Non Compliance – risk level				
	Compliant	Low	Medium	High	Zero Tolerance
Based on the assessment conclusions, the overall rating of the Refiner's performance is determined to represent:	Yes				

Is a follow up visit required? (in case of high risk non-compliance)		No
Date(s) of follow up visit:		Assigned auditor:



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AUDIT SUMMARY

Basic Inputs

This was a full assessment audit carried out by one auditor from Bureau Veritas Shanghai office who had carried last year assessment audit in 2017.

The member of the LBMA compliance team as well as members of the compliance committee including the general manager, sales manager, production manager and quality system manager attended the opening meeting. The general manager was appointed in 2015, formerly he was a local government officer. GM expressed his strong support for LBMA audit, and the factory had established LBMA management system in 2014. Key activities such as refinery of gold mines receiving from near-by gold mines and individual person were explained, inventory and stock take for gold warehouse, invoicing for individual transaction and record keeping were audited.

The number of gold supplying counterparties is re-confirmed that information provided in the application for LBMA audit such as number of gold supplies and number of transactions of gold-bearing materials received in the assessment period for purposes of Gold Refining is justified. In fact most suppliers are classified as low or medium risk suppliers that no high risk gold supplying counterparties is found during the audit. Secondly, gold receiving period between January to December 2017 was checked and match with the inventory record.

Time allocated time for the audit was found adequate to complete the audit process in time.

Description of the company activities [mandatory for all audits]:

The company was established in 1999 as a state owned company for gold bars refinery process on behalf of the China Central Bank (China Peoples' Bank). This company is one of two designated refinery facilities in China at that time. Since gold bars production and refinery process are controlled by the Chinese government, all transactions from gold mining, casting, electroplating, refinery, packaging, distribution, import and export must be reported to authority and registered under the government institution.

The company was re-structured as a share owned company with majority shares from local government in the end of 2002, and then the current production facility was relocated to the present site in 2003. The main business was maintained to provide gold refinery service for local gold mining industry. And then the finished goods will be traded in the Shanghai Gold Exchange based on instruction from the gold owner. Once the trading of gold bar is completed, the fine gold will be transferred to secure warehouse following instruction from the buyers. In 2017, two local mins provided mined gold. From 2016, the company developed new business. Customer bought gold bars from Shanghai Gold Exchange through the company and produce gold products by themselves. All the customers were qualified as second class members by SGE. The company has employed around 160 persons in 2017. However, because of the development of the city, as well as production equipment replacement programme to improve productivity and efficiency, the factory will be relocated in the sub-urban of the city in near future. The total volume of gold for last year is about 26.4 tons in 2017. Because of the change of company top management team, the company official web site is re-construction as www.qk9999.com. And open to public with gold supplier chain due diligence policy in Chinese and LBMA third party audit summary report of 2014, 2015 in English.

The company and factory are also certified to meet ISO 9001, and ISO 14001 standards and subject to regular and routine audit by third party. Hence the LBMA compliance is also supported by the System Assurance team.

Manual adequacy:



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Key clauses in LBMA Responsible Gold Guidance are addressed in the LBMA compliance policy manual that is prepared by the LBMA compliance committee.

Since the company is a state owned company, all applicable statutory requirements are mandatory implemented and maintained.

Assessment of level of compliance of Refiner's systems, processes, procedures and practices according to the LBMA Responsible Gold Guidance:

Step 1: Establish strong Refiner management systems

1. The company has initially developed the LBMA compliance policy regarding due diligence for supply chain of gold in 2013 after setting up the compliance office. The office was led by the production director and appointed as chairman of compliance committee. The compliance office included manager of sales and marketing department, financial department and warehouse supervisor. LBMA compliance policy manual written in Chinese was then released. The last version manual was updated on Aug.20/2015 (version number: QK/LBMA/WJ-01, A). The policy manual provides an overview of the management system governing the due diligence policy for gold supply chain as well as responsibility and authority of key persons of the compliance office.
2. LBMA compliance policy statement was further elaborated to include the commitment for the compliance of the LBMA requirement. Because of the change of company top management team, the company official web site is re-construction as www.qk9999.com. And open to public with gold supplier chain due diligence policy in Chinese and LBMA third party audit summary report of 2014, 2015 in English.
3. After the LBMA compliance committee was set up in 2013, trainings for key persons as well as management team were also provided. Training for operators, frequency of training, and the effectiveness of training were documented and kept well.
4. Since the company has provided gold refinery services for more than ten years, the company has already established a system to register all gold materials received for refinery process. Individual customers and company accounts were also established by using individual record books. Individual customers who request for gold refinery process must declare the sources of gold coming from and also provide personal information for traceability. Business registration certificate, taxation information and contact person, mine operation permit were required before service contract was signed.
5. The responsibility and authority of compliance committee members were documented in the LBMA policy manual. The compliance office had prepared annual report to the top management for level of compliance. The result of internal audit, process for system compliance was mentioned in the compliance report.
6. The communication procedure was issued on Aug.20/2015 (version number: QK/LBMA/WJ-03, A), the communication procedure for employees to report irregularity or suspicious received gold bar was set up. In 2017, no such case found.
7. A gold supply inventory system is also established to record down the quantity of gold received and also the actual quantity of pure gold after in-coming inspection and testing. The delivery quantity of gold bars is also recorded down in the inventory record book.
8. Since the company had set up quality assurance system to include document control procedure, the new procedures for the LBMA compliance programme was integrated to the present document control system with document identification and approval process.



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STEP 2: Identify and assess risk in the supply chain

1. Risk assessment process was established for the LBMA gold supply chain compliance policy. Since the company is a share company with major shareholders from the local government, the risk involved for money laundering and terrorism finance was minimized in general. In 2017, two local mines provided a little mined gold. The company developed new business. The first category is 28 customers who bought gold bars from Shanghai Gold Exchange through the company and produce gold products by themselves. All the 28 customers were qualified as second class members by SGE. These 28 customers legal business certification were strictly management by SGE, so all 28 customers were classified as low risk. The second category is two local mines, which was also classified as low risk.
2. Risk assessment for all gold suppliers was conducted since the gold supply chain due diligence policy was established. All customers provided required identification and certification. Individual person's non crime certification was verified by local police bureau.
3. Risk assessment reporting and results were presented to the top management that overall results were found in order.

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

1. Since the company is a state owned company, the company has no problem that risks mitigation was involved so far. Although no potential risk is identified, risk mitigation strategy was documented in due diligence process.
2. Since no risk case founded, no follow up on improvement plan was available during these audit days.

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

This was a full assessment LBMA third party audit, the last full initial audit was conducted in Jan. 2015. The data is available from Jan. 2017 to Dec. 2017 for audit, the company has made good effort to prepare for the assessment and provide relevant information to demonstrate the compliance of LBMA requirements.

STEP 5: Report on supply chain due diligence

This was a full assessment LBMA third party audit, the last full initial audit was conducted in Jan. 2015. The last version of gold supply chain due diligence policy was updated, written in Chinese (QK/LBMA/WJ-01, Version A, Issued on Aug.20/2015) that is available in website and LBMA audit summary report of 2014, 2015, 2016 was published on the website: www.qk9999.com



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

Assessment scope:	
<i>Refiner location(s) included in the assessment scope</i>	Refiner Location: East of Yuan Jing Er Road, Ruyi Development Zone, Huhhot, Inner Mongolia, China. Assessment Scope: Refinery of Gold Bars.
<i>Assessment Period</i>	1/Jan./2017 – 31/Dec./2017
Assessment methodology:	
Documentation	
The audit was conducted by document and record review, observation and interview. The LBMA policy was	



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reviewed on site. Samples of records including gold bars receiving and inventory record, finished goods such as gold bar delivery orders were also checked on site. These records were selected from the gold receiving and delivery log books for various suppliers from January to December 2017.

Factory visiting

The audit team visited the main production lines within the factory compound. The company has one five storages office building, and separated production workshop within the site boundary for casting and gold bar production, gold bar storage for receiving materials and finished goods, casting room, electroplating workshop were visited during the audit. The factory was set up for about ten years at the present site since the company was initial set up in 1999.

Interview

The persons in charge for sales and marketing, customer services, production planning and gold mixing process, finance and accounting who were members of the LBMA compliance committee were interviewed together with the general manager.

Records

The gold inventory and transaction records for the year 2017 was checked as following:
For two local mines, sampled the receiving records of Oct.16/2017, weight 23.3kg, with testing certification report number: 5019~5021, Ingot No: DX1756464~DX1756499; Sept.22/2017, weight 30.16kg, with testing certification report number: 5014~5016, Ingot No: DX1751886~DX1751915.
For gold provided by customers bought from SGE, sampled the delivery records of Aug.10/2017, 118kg, Ingot No: V673336~V673453; Aug.15/2017, 13kg, Ingot No: TTB52971~TTB52983; Aug.21/2017, 18kg, Ingot No: MSG-S27476~MSG-S27493; Aug.31/2017, 3kg, Ingot No: IX1729150~IX1729227
All the 28 customers and 2 local mines were evaluated in 2017 and the risk assessment report and gold inventory record proved the information was accurate. The gold inventory record had no discrepancy between warehouse and accounting department.

Any significant or inherent limitations or areas not covered that were within the assessment scope:

Since the company is also able to provide raw materials for jewellery production, this activity was not covered in the current assessment scope.

Assessment criteria:

The auditor had reviewed relevant objective evidence provided by the Refiner. Relevant evidence was either qualitative or quantitative in as far as it is appropriate and sufficient to support the auditor to make conclusion.

Any actual or potential gaps in the Refiner's systems in regards to the LBMA requirements are rated in accordance to the level of risk each presents to the credibility and integrity of the LBMA Responsible Gold Programme for the responsible sourcing of gold-bearing materials.



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The Auditors confirm that:

- ✓ The information provided by the Refiner is true and accurate to the best knowledge of the Auditor(s) preparing this report.
- ✓ The findings are based on verified Objective Evidence relevant to the time period for the assessment, traceable and unambiguous.
- ✓ The Auditor(s) have acted in a manner deemed ethical, truthful, accurate professional, independent and objective.
- ✓ The Auditor(s) are properly qualified to carry out the assessment at this Refiner's facility.

Lead Auditor: Henry Teng

Signature:

A handwritten signature in cursive script that reads 'Henry Teng'.

Date: 30/Jan./2018