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## **MANAGEMENT REPORT**

**Minshan Environmental Energy High Tech Co., Ltd.**

LBMA Responsible Silver Sourcing Assurance Engagement

**7-8, 20 March 2023**



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## ASSURANCE ENGAGEMENT SUMMARY

<b>Refiner name</b>	Minshan Environmental Energy High Tech Co., Ltd.
<b>Refiner location</b>	Long'an District Industrial Park, Anyang City, Henan Province, China
<b>Lead assurance practitioner and assurance practitioner team members</b>	Kevin Wei
<b>Dates and places where the assurance engagement activities were conducted</b>	Onsite assurance engagement activities were conducted on 7-8 March 2023, and one more extra day of remote assurance engagement activities were conducted on 20 March 2023.

## 1. LBMA REFINER MANAGEMENT REPORT

<b>Assurance criteria and objectives</b>	
<p>The assurance criteria consist of the requirements set out within the LBMA Responsible Silver Guidance (RSG) Version 1, supplemented by the Refiner's interpretation and application at a more detailed level through its own policies, procedures and internal controls.</p> <p>The objective is to assess the suitability of the assurance criteria, and hence the Refiner's supply chain policy and management systems.</p> <p>The last assurance engagement was conducted on 22 &amp; 23 February, 4 March, 1 &amp; 20 April 2022, this assurance engagement took into account the suggested actions applied to 1 non-conformance (low risk) raised during the last assurance engagement of the Refiner. The assurance objective was accomplished.</p> <p>The assurance practitioner team only consists of approved LBMA assurance practitioners and adheres to the LBMA's independence and core competency requirements.</p>	
<b>Assurance scope</b>	<p>The reasonable assurance engagement includes the operations of Minshan Environmental Energy High Tech Co., Ltd. ("the Refiner").</p> <p>The material in scope is Silver</p> <p>Subject matter: The LBMA assurance subject matter includes the Refiner's disclosures on its conformance with the Guidance and the underlying management systems used to derive these disclosures, as presented in the Compliance Report and the Country of Origin Annex.</p>

<b>Refiner location(s) included in the assurance scope</b>	Long'an District Industrial Park, Anyang City, Henan Province, China
<b>Assurance period</b>	January 1, 2022 – December 31, 2022
<b>Assurance Methodology</b>	<p>The assurance methodology is comprised of three main phases as follows:</p> <p>a. Pre-assurance planning of the assurance strategy Request information about the Refiner and its operations related to silver; development of an assurance plan with additional instructions and information requested prior to the onsite assurance engagement; arrangement of logistics.</p> <p>b. Execution of the onsite assurance engagement Work with the Refiner to conduct an opening meeting; complete a facility walk-through for visual observations of the Refiner's operations; review of the due diligence program including policies, procedures, and records; prepare an assurance conclusion and conduct a closing meeting.</p> <p>c. Assurance conclusion and reporting</p>
<b>List of interviews</b>	<ul style="list-style-type: none"> <li>• Compliance Director</li> <li>• Compliance Manager</li> <li>• Compliance Specialist</li> <li>• Production Workshops Leaders</li> <li>• Production workers</li> <li>• Warehouse staff</li> <li>• Lab Analyst</li> <li>• Financial Specialist</li> <li>• Business Operation Specialist</li> </ul>
<b>Number of transactions and sample size</b>	178 batches of silver-containing mined material, and 46 transactions are sampled for review.
<b>Sample selection process</b>	Random, risk-focused, fully cover each immediate suppliers, as well as each country of origin.
<b>Assurance engagement summary</b>	
<p><b>INTRODUCTION</b></p> <p>The Refiner uses the silver concentrate and anode slime obtained as by-product of the gold concentrate and lead concentrate processed by the Refiner to make silver ingots.</p> <p>The Refiner's operations for silver ingots consist of anode slime reduction, smelting in reducing furnace, oxidation smelting in silver separator furnace, silver electrolysis refining and silver ingots casting.</p> <p>The Refiner produces the silver ingots with specifications of 15 Kgs and 30 Kgs, and the purity is 99.99%. In 2022, there are a total of 39 immediate suppliers supplied with 144056.761 kgs (pure metal content) of silver-bearing mined materials.</p>	

The Refiner has been certified against ISO 9001, ISO 14001 and ISO45001 standards.

## **ASSESSMENT OF CONFORMANCE FOR REFINER'S SYSTEM, PROCESS, PROCEDURES AND PRACTICES ACCORDING TO LBMA RESPONSIBLE SILVER GUIDANCE**

### **STEP 1: Establish strong company management systems**

- The Refiner publishes the Statement on LBMA Responsible Sourcing of Silver Raw Materials on its company **website**, which commits to implementing the LBMA RSG, and includes all risks described in the Annex II of the OECD Due Diligence Guidance as well as environmental requirements.
- The Refiner has an Organisation Chart with the defined roles and responsibilities for implementing the supply chain due diligence, and the Compliance Director is assigned as senior management staff for responsible minerals sourcing and commitment to the LBMA RSG program, and other compliance team members shall report on the implementation of the supply chain due diligence process to the Compliance Director.
- The Refiner has provided training on the LBMA RSG on 7 July 2022 and the training on Responsible Silver Supply Chain Due Diligence Management System on 20 November 2022. The training records are maintained.
- The Refiner has conducted a management review to review the effectiveness and performance of their supply chain due diligence procedures on 10 November 2022. The management review report is maintained.
- The Refiner uses ERP system to record all received silver-bearing materials. The document number, supplier name, batch number, truck number, incoming date, material code, material name and quantity are recorded. There are total of 39 immediate suppliers. The purchase contracts and inspection reports are maintained.
- Based on the sampled transactions review, the Refiner made payments for silver-bearing materials through official banking channels.
- The Refiner has communicated the responsible sourcing requirements to the suppliers and collected a signed Letter of Acknowledge and Commitment from the suppliers stating their compliance with the responsible sourcing requirements. The Refiner has also established a work instruction to support the principles and implementation of the EITI.
- The Refiner has established a Responsible Silver Due Diligence Management Procedure, which states that the due diligence records should be maintained for 5 years.
- The Refiner has shared the training material to some suppliers to assist them in improving their responsible supply chain practices. However, the Refiner does not assist new immediate suppliers in building their capacities with a view to improving the supplier's due diligence performance.
- The Refiner publishes the grievance channels (email and telephone number) on the company **website** allowing any employee or external stakeholder to anonymously voice concerns over the silver supply chain or any newly identified risk. The Refiner has also established a Grievance Management Procedure. Based on the management interview, no grievance was received during the assessment period.

### **STEP 2: Identify and assess supply chain risks**

- The Refiner has established a Responsible Silver Due Diligence Management Procedure, which defines the Know Your Counterparty (KYC) process, risk identification and assessment process, and risk assessment standard according to the LBMA RSG.
- The Refiner has established a Conflict-Affected and High Risk Area (CAHRA) List based on the EU CAHRA List, the covered countries defined in the Dodd Frank Act, and the FATF High Risk and Other Monitored Jurisdictions Countries List, and no CAHRA is identified in its supply chain. However, based on management interview, 23 out of 29 Chinese suppliers orally confirm to the Refiner that the Origin of Country of the silver-bearing materials supplied to the Refiner is China, but the Refiner does not provide any evidence from those suppliers for the Origin of Country as those suppliers refuse to submit the evidence to the Refiner due to

the consideration of business confidentiality (as stated by the Refiner). (Comment on 24 March 2023: The Refiner provides the Statement of Country of Origin signed by its suppliers, which state that the country of origin of the supplied material is China, however, the Refiner could not provide communication records supporting the signature of statements). The Country of Origin Annex as part of the assessment report was completed based on above information provided by the Refiner.

- The Refiner has completed KYC for all 39 immediate suppliers. The information on business type and operation, shareholder and beneficial owner, and top management are collected. The copies of 39 suppliers' Business License and KYC files are retained.
- The Refiner has established a Responsible Silver Supply Chain Risk Assessment Form, and has conducted risk assessment for all 39 suppliers. Based on the review of the risk assessment reports, all suppliers are rated as low risk, and the risk assessment reports have been approved by the Compliance Director.

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

- The Refiner has established a Risk Mitigation Management Procedure, which states that any information gathered, actual and potential risks identified in the supply chain risk assessment should be reported to the Compliance Director.
- Risk Mitigation Management Procedure defines 3 strategies for risk management of identified risks by either: (i) mitigation of the risk while continuing trade, (ii) mitigation of the risk while suspending trade for 6 months, and (iii) disengagement from the risk.
- Risk Mitigation Management Procedure also defines a process to monitor the performance of risk mitigation and a process to undertake additional risk assessments after implementing a risk mitigation strategy or after a change of circumstances.
- According to the CAHRAs identification, all counterparties were classified as low risk. No red flags were identified by the Refiner in its silver supply chain, hence no risk mitigation was required.

### **STEP 4: Obtain independent third-party assurance on supply chain due diligence practices**

- This is the second calendar year to have LBMA RSG assurance assessment, and the assessment objectives were accomplished. Assessment reports will be shared with the LBMA Chief Executive for review against their published requirements for refiners.

### **STEP 5: Report annually on supply chain due diligence**

- Responsible Silver Due Diligence Management Procedure defines a process to prepare the compliance report yearly. The Refiner has published the LBMA RSG Compliance Report (2022) on its company [website](#) before this Management Report is issued.
- 1 non-conformance (low risk) raised during the last assurance engagement was not fully corrected, and the medium risk is recommended. The Refiner is still recommended to enhance supplier engagement to identify the origin of the silver based on reasonable and good faith efforts, and retain the related documents and records.

### **Statement of the confidential nature of the contents**

All the data contained in the management report, as well as all information obtained during the performance of the certification, is private and confidential between the assurance firm and the Refiner.

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

There were no significant or inherent limitations or areas not covered that were within the assurance scope.

### Assessment criteria

The assurance practitioner takes into account all relevant objective evidence provided by the Refiner. Relevant evidence is either qualitative or quantitative as far as it is appropriate and sufficient to support the assurance practitioner's conclusions. Appropriate evidence is relevant and reliable. Sufficient evidence refers to the amount of evidence provided to allow the assurance practitioner to reach a 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 Silver Programme for the responsible sourcing of silver-bearing materials.

## 2. DISTRIBUTION LIST

This report is issued for the benefit of the Refiner and will be shared with the Refiner's main contact. The final version of this annual Management Report, LBMA Assurance Report and Country of Origin Annex will be submitted by the assurance firm to the LBMA Chief Executive. In accordance with Step 5 of the *LBMA Responsible Silver Guidance Version 1*, the Refiner should make the LBMA Assurance Report available to the public.



### 3. ASSURANCE ENGAGEMENT FINDINGS

<i>Assurance practitioners use only</i>					<i>Refiner use only</i>		
Category /subcategory	Risk rating	Non-compliance/Observation:	Recommended corrective action	Timeframe for implementing corrective actions	Corrective action to be taken by the Refiner	Completion timeframe	Responsible staff
<b>Step 1</b> Section 1.4	Low	The Refiner does not assist new immediate suppliers in building their capacities with a view to improving the supplier's due diligence performance.	It is recommended to assist silver supplying counterparties or prospects in improving their responsible supply chain practices. For example, the Refiner can provide guidance or share practices knowledge with its suppliers.	3 months	The Refiner agrees to assist silver supplying counterparties or prospects in improving their responsible supply chain practices.	3 months	Feng Guo
<b>Step 2</b> Section 2.2	Medium	Based on management interview, 23 out of 29 Chinese suppliers orally confirm to the Refiner that the Origin of Country of the silver-bearing	The Refiner is still recommended to enhance supplier engagement to identify the origin	3 months	The Refiner agrees to do their best to collect and confirm the information of the country of origin.	3 months	Feng Guo

		materials supplied to the Refiner is China, but the Refiner does not provide any evidence from those suppliers for the Origin of Country as those suppliers refuse to submit the evidence to the Refiner due to the consideration of business confidentiality as stated by the Refiner. (Comment on 24 March 2023: The Refiner provides the Statement of Country of Origin signed by its suppliers, which state that the country of origin of the supplied material is China, however, the Refiner could not provide communication records on the signature of statements).	of the silver based on reasonable and good faith efforts, and retain the related documents and records.				
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#### 4. OVERALL RATING

Overall Rating of Assurance Findings	Compliant	Low	Medium	High	Zero Tolerance
Based on the above detail assurance findings, the overall rating of the Refiner's performance is determined to represent:			X		

#### ASSURANCE FINDINGS BREAK DOWN



				Non-Compliance – risk level			
	CATEGORY	SUBCATEGORY	Compliant	Low	Medium	High	Zero Tolerance
<b>A.</b>	<b>General Information</b>						
<b>B.</b>	<b>Step 1:</b> Establish strong Refiner management systems	<b>1.1</b>	X				
		<b>1.2</b>	X				
		<b>1.3</b>	X				
		<b>1.4</b>		X			
		<b>1.5</b>	X				
<b>C.</b>	<b>Step 2:</b> Identify and assess risk in the supply chain	<b>2.1</b>	X				
		<b>2.2</b>			X		
		<b>2.3</b>	X				
<b>D.</b>	<b>Step 3:</b>	<b>3.1</b>	X				

	Design and implement a management strategy to respond to identified risks	<b>3.2</b>	X				
		<b>3.3</b>	X				
		<b>3.4</b>	X				
<b>E.</b>	<b>Step 4:</b> Arrange for an independent third-party audit of the supply chain due diligence	<b>4.1</b>	X				
<b>F.</b>	<b>Step 5:</b> Report on supply chain due diligence	<b>5.1</b>	X				

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## 5. ASSURANCE PRACTITIONER DECLARATION

The assurance practitioner confirms that:

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

Assurance practitioner	Kevin Wei
Signature	Kevin Wei
Date	21 March 2023

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