

Audit Summary Report

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| **Auditee Name** | *Chongyi Zhangyuan Tungsten Co., Ltd.* |
| **Smelter ID** | *CID000258* |
| **Auditee Contact Person** | *Luo Shengren /Internal Control manager* |
| **Audit Date(s)** | *05/18/2018* |
| **Audit Type** | *Re-Audit* |
| **Audited Material** | *Tungsten* |

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| **Audit Company** | *SGS* |
| **Lead Auditor Name** | *Vincent Xie* |
| **Date report sent to Auditee** | *05/24/2018* |
| **Date report sent to CFSP** | *MM/DD/YYYY* |
| **Report Revision #** | *CRS-2018-05-18* |

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| **AUDIT CONCLUSION:** | | |
|  | The auditor found that the auditee’s operations are in conformance with the requirements of the Conflict Free Smelter Program Supply Chain Transparency Smelter Audit Protocol for Tin and Tantalum, Revision of 21 November 2013. | |
|  | The auditor identified non-conformance(s) between the auditee’s operations and the requirements of the Conflict Free Smelter Program Supply Chain Transparency Smelter Audit Protocol for Tin and Tantalum, Revision of 21 November 2013.  Non-conformance(s) relate to: | |
|  |  | Conflict Minerals Policy Compliance Requirements |
|  |  | Mass Balance Compliance Requirements |
|  |  | Material Type and Origin Verification |
|  | The Auditee has agreed to address the non-conformance(s), to define a Corrective Action Plan (if necessary) and undergo a verification of the implementation of corrective actions. | |
|  | The auditee has **not** agreed to address the non-conformance(s), to define a Corrective Action Plan (if necessary) and to undergo a verification of the implementation of corrective actions. | |
|  | *Please refer to the summary on the next page for details.* | |

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| **SUMMARY OF NON-CONFORMANCES** | | | | |
| **Number:** | **Non-Conformance related to\*:** | **Description of non-conformance:** | **Recommended Corrective Action:** | **Auditee response (if any):** |
| 1 | Material Type and Origin Verification | *Insufficient documents for origin and chain of custody were identified for the Intermediates materials:*  *The documents kept by the smelter only tracked back to its immediate supplier; and the APT and wolframic acid trading supplier /smelters of the auditee were not TI-CMC members or CFS approved smelters.* | *The smelter should purchase the Intermediates materials from TI-CMC members or CFS approved smelters; or conduct due diligence investigation for its upper supply chain to verify the origin and chains of custody for the intermediates materials purchases.* | *Agreed* |
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\* Policy, Mass Balance, Material Origin, Other

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| **SUMMARY OF OBSERVATIONS (if any)** | | | |
| **Number:** | **Description of the observation:** | **Recommended improvement:** | **Auditee response (if any):** |
| 1 | *For the documents for chains of custody, the smelter only kept the receipts, the transportation files like BL or transportation logs were not collected.* | *It is suggested that the smelter should keep the transportation files like BL or transportation log to* [*demonstrate*](javascript:void(0);) *the chains of custody.* | Agreed |
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# Introduction

*Chongyi Zhangyuan Tungsten Co., Ltd is a stock company with business range from mining, beneficiation, smelting, powder producing, tungsten alloy & cemented carbide processing, deep processing and trading founded on Feb 28, 2000. The major products are APT, tungsten oxide, tungsten carbide, tungsten powder, cemented carbide. According to the management interview, the production capacity could reach to 10,000 Ton per year for APT production and tungsten oxide, 6000 Ton for tungsten carbide production, 2000 Ton per year for cemented carbide production. 60% of the products are sold in China, 40% are exported to America, EU, South Korea, Japan, Russia.*

*Main operations are as below:*

*APT: Raw material (Tungsten concentrate) -> Ball milling-> Soda boiling -> filtering ->* *IX ->Cleaning->Impurity Removing-> Crystallization ->Oven-> APT*

*Tungsten oxide: APT->Calcining-> Tungsten oxide*

*Tungsten Powder: Tungsten oxide->*[*Hydrogen*](javascript:void(0);) *revivification-> Tungsten powder*

*Tungsten carbide: Tungsten Powder-> Dosing->* [*Carbonization*](javascript:void(0);)*-> Tungsten carbide*

*Cemented carbide: Tungsten carbide-> Dosing-> Ball milling->Press forming->Sintering->Polishing->Cemented carbide.*

# Audit Objectives

The objective of the audit is to assess the auditee’s level of compliance with the requirements of the Conflict Free Smelter Program Supply Chain Transparency Smelter Audit Protocol for Tin and Tantalum, Revision of 21 November 2013.

# Audit Scope

The audit is carried out against the Conflict Free Smelter Program Supply Chain Transparency Smelter Audit Protocol for Tin and Tantalum, Revision of 21 November 2013.

It covers the following entity and material:

* *Entity audited: Chongyi Zhangyuan Tungsten Co., Ltd.*
* *Material audited: Tungsten*

## Audit Period

*O1/01/2017-04/30/2018*

## Physical Sites and Description

*Exact company name: Chongyi Zhangyuan Tungsten Co., Ltd.*

*Physical address: Taxia, Chongyi Country, Ganzhou City, Jiangxi Province, China*

*Types of materials received:* [*wolframite*](javascript:void(0);)*, Scheelite, APT, wolframic acid.*

*Types of feed Tungsten materials:* [*wolframite*](javascript:void(0);)*, Scheelite, APT, wolframic acid.*

*Types of Tungsten products produced: APT, tungsten oxide, tungsten carbide, tungsten powder, cemented carbide.*

*Manufacturing Process:*

*APT: Raw material (Tungsten concentrate) -> Ball milling-> Soda boiling -> filtering -> IX ->Cleaning->Impurity Removing-> Crystallization ->Oven-> APT*

*Tungsten oxide: APT->Calcining-> Tungsten oxide*

*Tungsten Powder: Tungsten oxide->*[*Hydrogen*](javascript:void(0);) *revivification-> Tungsten powder*

*Tungsten carbide: Tungsten Powder-> Dosing->* [*Carbonization*](javascript:void(0);)*-> Tungsten carbide*

*Cemented carbide: Tungsten carbide-> Dosing-> Ball milling->Press forming->Sintering->Polishing->Cemented carbide.*

# Audit Team

*Vincent Xie/Leader auditor*

*David Fang/Member auditor*

# Audit Methodology

*Interview with corporate management and site responsible persons - to understand the company background, site operation, conflict free purchasing policy and procedure, training, lot number control, business with suppliers, industrial definition about incoming materials and finished goods, and also implementation of the due diligence process.*

*Site walk through – to observe the process flow from raw material warehouse, manufacturing plants to product warehouse, at the same time sample selection for inventory spot checks in raw materials warehouse, finished goods and their supplier’s warehouse which was managed by the auditee itself.*

*Document review - company policy related to procurement of W containing material, material balance including inventory spot check and transaction document, material receipts documentation and test report for non-secondary materials, materials received and issue records.*

# Summary of Audit Observations

## Conflict Minerals Policy

* *The auditee had a statement named "CM policy statement” in the website and it was issued on Apr 2, 2014, and publicly available at:*

*http://www.zy-tungsten.com/cn/NewsPage.aspx?class1=2&class2=19&id=299*

* *This policy includes the kind of raw materials, effective date, communication to suppliers/stakeholder only purchasing raw materials that are conflict-free and no minerals purchased would directly or indirectly finance or benefit armed groups in the conflict-affected regions such as Democratic Republic of Congo or adjoining countries; promise to follow the applicable OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict Affected and High-Risk Areas.*
* *Mr. Luo Shengren /Internal Control manager was responsible for the implementation of the CM policy.*
* *CM management regulation,* *material coding and purchasing management regulation were set up.*
* *The smelter* *integrated the CM free policy into the purchasing contracts and signed a CM free mineral commitments with all its suppliers.*
* *The training of conflict-free policy knowledge/Supplier Code of Conduct/Ti-CMC introduction training was conducted for different departments, the latest one was conducted on Apr 15, 2018; Attendees covered the information /HR/import and export/financial/sales/production staffs and supervisor, etc.*

## Mass Balance Calculation

* *Quantity variance is 5.31% which is acceptable.*
* *Materials usage, in/out balance, and finished good are monitored and recorded, ERP system is in place for the products/materials management. Monthly stock checked is conducted to keep the materials/products balance accurate.*
* *8 samples (including 2* [*wolframite*](javascript:void(0);) *lots, 2 wolframic acid lots, 2 Tungsten carbide lots, 2 Tungsten oxide lots) selected during walkthrough were spot checked in the recording system and found consistent with LIS.*
* *Shipment lots in Mar. 2018 were selected for review. There were 30,000 Ton APT; 0.5 Ton Tungsten Oxide, 107.553 Ton Tungsten powder, 317.688 Ton Tungsten Carbide, 19.392Ton mixing Tungsten Carbide (Cemented carbide). It matched with data source of the Mass Balance.*

## Origin Determination

* *Incoming material is purchased by procurement department; origin and trading documentation is collected and reviewed. E.g.: contracts, receipt, mining license, invoice, analysis records.*

### Origin Determination Level 1

a. LSM Sources

* *1346 level 1 purchases during the audit periods, 25 batches (including 8 lots of WOLFRAMITE CONCENTRATE, 1 lot of SCHEELITE CONCENTRATE; 13 Lots of APT, 3 lots of TUNGSTIC ACID) were sampled and checked as per the protocol, records include: purchase contract, business license of supplier, mining license, analysis records, invoice. All L1 purchases were confirmed from China.*
* *For the documents for chains of custody, the smelter only kept the receipts, the transportation files like BL or transportation logs were not collected.*

b. ASM Sources

* *No purchase from L1 ASM.*

### Origin Determination Level 2

a. LSM Sources

* *No purchase from L2 LSM.*

b. ASM Sources

* *No purchase from L2 ASM.*

### Origin Determination Level 3

* *No purchase from L3*

### Verification of legacy and secondary material

* *No legacy material and secondary material purchase during the audit periods.*

### Verification of material received from a supplying smelter

* *There were 458 batches Intermediates (APT and wolframic acid) purchase from the supplying smelter or trader, 16 batches were sampled (13 Lots of APT, 3 lots of TUNGSTIC ACID) for different suppliers for review. Documents kept for these APT and wolframic acid included: Contracts, receipts, analysis records, invoice, and business license of the trader/smelter.*
* *Insufficient documents for origin and chain of custody were identified for the Intermediates materials:*

*The documents kept by the smelter only tracked back to its immediate supplier; and the APT and wolframic acid trading supplier /smelters of the auditee were not TI-CMC members or CFS approved smelters.*

# Opening and Closing Meeting

*Auditee:*

*Mr. Luo Shengren–Internal control manager*

*Mrs. Zeng Yujuan- Import and export Dept*

*Mrs. Huang Xuefeng- Purchase Dept*

*Ms. Zeng Guiling-Sales Dept*

*Mr. Li Mingxin-Sales Dept*

*Mr.Li Mingyong-QC Dept*

*Mrs. Tan Yan- Purchase Dept*

*Mrs. Zhong Yonghua-Marketing Dept*

*Mrs.Zeng Mingxia-Production.*

*Auditor:*

*Vincent Xie– Lead Auditor, SGS China*

*David Fang—Member Audior, SGS China*

*And there were 2 observers from Ganzhou customs of Jiangxi Province presented onsite and observed the whole audit.*

# Limitations and General Feedback

*The auditee representative Mr. Luo Shengren/Internal control manager confirmed the above information.*