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Responsible Gold Guidance – LBMA Assessment Report

(ISO19011:2011)

Solar Applied Materials Technology Corporation

13~16 March 2018

London Bullion
Market Association
(LBMA)



Assessment Information	
Refiner name:	Solar Applied Materials Technology Corporation
Refiner location:	<ol style="list-style-type: none"> 1) Solar Headquarters: No.1, Gonye 3rd Rd., Tainan Technology Industrial Park, Tainan City, 70995 Taiwan 2) ESTP Plant: No. 16, Gong 1st Rd., Environmental Science & Technology Park, Liuying District, Tainan City, 73659 Taiwan 3) Solar Park: No.1, Sec. 2, Huanyuan E. Rd., Liuying District, Tainan City, 73659 Taiwan
Refiner contact person: Name, Title: Email: Phone:	Ms. Claire Lin Quality System Supervisor claire.lin@solartech.com.tw + 886-6-5110123 #6310
Lead auditor and audit firm	Jane Dan Resource Consulting Services (RCS) Global
Dates and location of onsite assessment	<ol style="list-style-type: none"> 1) 13 & 16 March 2018: assessment conducted at Solar Headquarters; 2) 14 March 2018: assessment conducted at Solar Park; 3) 15 March 2018: assessment conducted at ESTP Plant.

LBMA Refiner Assessment Report	
Assessment objectives:	
<p>The objective of the assessment was to determine whether the refiner's management system, including procedures, processes and management practices, complies with Version 7 of the LBMA Responsible Gold Guidance (RGG), last updated on 1 September 2017. The assessment took into account the corrective actions applied to the findings raised in an initial full assessment of the refiner, which was conducted on 12-14 July 2017. The assessment objective was accomplished.</p>	
Assessment scope:	
<i>Refiner location(s) included in the assessment scope</i>	<p>All three facilities owned by Solar Applied Materials Technology Corporation (SOLAR) were in scope and visited during the assessment. They comprised:</p> <ol style="list-style-type: none"> 1) Solar Headquarters: No.1, Gonye 3rd Rd., Tainan Technology Industrial Park, Tainan City, 70995 Taiwan 2) ESTP Plant: No. 16, Gong 1st Rd., Environmental Science & Technology Park, Liuying District, Tainan City, 73659 Taiwan 3) Solar Park: No.1, Sec. 2, Huanyuan E. Rd., Liuying District, Tainan City, 73659 Taiwan
<i>Assessment period</i>	1 January 2017 – 31 December 2017
Assessment methodology:	

The refiner was assessed by means of observation, documentation review and interviews, addressing all areas covered by the LBMA RGG including the closure status of findings raised during the initial assessment.

Assessment summary:

I. Introduction

- SOLAR was founded in 1978 and currently has around 1,000 employees. SOLAR offers key materials and an integrated service model for optoelectronics, information technology, petrochemicals and consumer electronics industries. The company has four major categories of products, including precious chemicals, special chemicals, resources recycling and gold targets. SOLAR is certified by ISO 9001, OHSAS 18000, and ISO 14001 standards.
- This is an annual assessment review. The initial full assessment on 12-14 July 2017 was conducted by the same auditor from RCS Global. There were two minor non-conformances raised during the initial assessment, which have since then been corrected with correction evidences provided for review during this assessment.
- SOLAR owns three facilities at three sites with product and production flows related to gold as follows:
 - ✓ Solar Headquarters (HQ):
 - Industrial product manufacture
 - Gold target (Melting → forging → rolling → treatment → machining → cleansing → packing)
 - ✓ ESTP Plant:
 - Gold recovery from waste scraps
 - Incineration → grinding → blending → dissolution → filtration → precipitation → cleansing → drying → casting → crude gold ingot
 - ✓ Solar Park:
 - Secondary refining to high purity ingot before further processing into final gold product
 - Refining (Spraying → dissolution → reduction → cleansing → high purity ingot)
 - LBMA gold bullion (Melting → cooling → finishing → cleansing → marking → weighing → LBMA gold bullion)
 - Potassium gold cyanide (Rolling → cutting → annealing → electrolysis → crystallization → drying/cleansing → potassium dicyanoaurate)
 - Gold slug (Continuous casting → drawing → cutting → cleaning/polishing → drying → packing)
 - Gold target bonding service (*Machining → Bonding → Warpage correction → cleaning/polishing → drying → packing*)
- SOLAR sourced and/or processed a total of 5,919 transactions of recycled gold from 78 active gold-supplying counterparties during the audit period (1 January 2017 - 31 December 2017). The company did not source any mined gold during the period. None of the transactions and counterparties reviewed were categorised as being part of a high-risk supply chain based on due diligence documents provided.
- The Country of Origin Annex was completed and verified as part of this assessment.

II. Assessment of level of compliance for refiner's system, process, procedures and practice according to LBMA RGG

SOLAR had updated its management procedures and implementation tools based on version 7 of

the LBMA RGG. Its performance in this assessment is satisfactory and no corrective actions are requested following this assessment. There is evident commitment to the implementation and maintenance of the relevant management system.

Step 1: Establish strong company management systems

- SOLAR had updated its Supply Chain Policy, which is consistent with the Model Policy set forth in *Annex II of OECD Due Diligence Guidances for Responsible Supply Chain of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance)*. It had been communicated to all counterparties and made publicly available at http://www.solartech.com.tw/tw/responsibility_supply_policy.html.
- The company had created an internal management structure to support supply chain due diligence activities. This consisted of
 - ✓ Assigning responsibility for responsible minerals sourcing and commitment to the LBMA RGG program to the company Compliance Officer (Ms. Huang Peining) who reported directly to the General Manager (Mr. Huang Qifeng).
 - ✓ The establishment of a Due Diligence Assessment Committee with members consisting of supervisors of different business units.
 - ✓ Relevant functional departments including precious metals business, production, sourcing, sales, quality system, and warehouse participated in the implementation of due diligence practices. The role and responsibility of each department was documented.
- A bi-annual Management Review of due diligence practices was defined. The latest review was conducted on 6 February 2018. The related records were maintained, including sourcing practices and analysis, supply chain risk assessment, new version of LBMA RGG, LPPM update, internal procedures, future training plans, etc.
- Annual training and irregular refresher trainings were developed. The latest training sessions on internal due diligence practice and LBMA RGG version were held on 29 September 2017 and 6 February 2018 separately at different facilities. Training materials and attendance lists were maintained.
 - ✓ The interview with the management team revealed that its members were familiar with LBMA RGG standard and sourcing requirements. In addition, interviewed employees were able to implement responsible sourcing per defined processes.
- Updated *Responsible Minerals and High-Risk Areas Management Procedure* (document number: ESQP-0038, version: 03, effective date: 2 March 2018): defined scope, organization structure, identification and assessment risks, criteria for Low-risk /Middle-risk/High-risk/Prohibit-trading supply chain, Know Your Counterparty process, management review, training, etc.
- *Due Diligence Management Guidance* (document number: RIC-SP-GI0001): defined the transactions monitoring and consistent verification process.
- The company's ERP system (Oracle Application System) was utilized for storing information about Purchase Orders and Solar Merchandise Authorizations: gold-bearing materials received, shipment and inventory were controlled and recorded; unique reference number to each input and output were given.
- Documents control (document number: ESQP-0004): defined that due diligence records will be maintained for a period of at least five (5) years.
- Payment through official bank transfer was implemented, and cash transactions were not allowed. (in case of a special situation, cash transactions required an enhanced assessment and the General Manager's approval. No such cases happened through the audit period).
- The sourcing requirements were communicated to all counterparties and written acknowledgement

was requested.

- SOLAR Participated in a local bureau project on anti-money laundering and combatting the financing of terrorism (AML-CFT) in January 2018, which disclosed information.
- A grievance mechanism for both internal employees and external parties with supporting procedure was documented in the *Integrity Manual* (REG-LAW-0011_01), and reporting platform as:

http://www.solartech.com.tw/tw/responsibility_business_conduct.html

Step 2: Identify and assess risk in the supply chain

- SOLAR defined supply chain risks in accordance with Annex II of the *OECD Guidance*.
- SOLAR listed conflict-affected and high-risk areas (11 countries) with document number: ESQP-0038 (version: 03, effective date: 2 March 2018). In parallel, SOLAR participated in a local bureau project on anti-money laundering to access a worldwide database of the latest sanctions lists and weak governance areas. SOLAR's Quality System department received irregular updates from the local bureau.
- SOLAR designed *Questionnaire – Precious Metal Supplier Information* (document number: FESQP-0038-0002~2) based on LBMA Toolkit “LBMA RGG Questionnaire – Recycled Gold” to conduct the know-your-customer (KYC) process. Meanwhile, *Conflict metals and Precious Metal Sourcing Policy Form* was sent to counterparties for commitment to comply with responsible sourcing policy.
- SOLAR collected and assessed its counterparties' information from public sources. SOLAR was a member of a local bureau (Taiwan Depository and Clearing Corporation) and able to access to sanction lists and AML-CFT database worldwide.
- SOLAR established risk assessment procedures taking consideration of KYC Questionnaire, origin of gold, recycled gold appearance before processing, transportation route and etc. The following tools were developed to collect information and assess gold supplying counterparties:
 - ✓ *Gold Supply Chain Risk Assessment Forms – For Trader & Bank/ For Recycler & Refiner / For Downstream Manufacturer* (Different supplier types were assessed using different forms; the contents covered basic information about location, business type, disclosure of financial report and beneficial owners, whether listed on stock exchange etc.).
 - ✓ *Comprehensive Assessment Form - For Trader & Bank/ For Recycler & Refiner / For Downstream Manufacturer* (Different suppliers types were assessed using different forms; the contents covered information on materials sourcing channels, production capacity, due diligence practices, supplying status to SOLAR, history of government punishment or fine, whether company or beneficial owners are listed on sanctions lists etc.)
- Implementation of the supply chain risk assessment:
 - ✓ Each counterparty was assessed based on two, above-noted approaches, and the sum of two assessment scores was used to decide whether the counterparty was Low-risk/Middle-risk/High-risk/Prohibit-trading supply chain. For example, if any counterparty was based in sanctioned countries, its final assessment result was classified as “Prohibit-trading” directly. (No such case happened during the audit period.)
 - ✓ Assessment aspects covered the minimum criteria defined in LBMA RGG. Additional due diligence measures were also defined by SOLAR. For example, a recycler counterparty was requested to provide a previous form for supplying recycled gold.
 - ✓ Based on the assessment documents review, there was no “High-risk” or “Prohibit-trading” supply chain in 2017.
- SOLAR maintained and filed traceability records for each transaction, including gold material

photos, gross/net weight, assay, purchasing records, warehouse receiving records, invoice, packing list, gold bar list, air waybill, custom declaration, bill of lading, transportation records, etc..

✓ A total of 65 transactions covering different materials type and suppliers were sampled for verification. No inconsistencies were found.

- Warehouse staff was trained to verify receiving materials against sourcing documents; established written procedure *Au & Ag & Pd Incoming Materials Management Instructions* (document number: PMD-PMG-IC0001).
- Pending storage area was labelled and separated for suspicious materials or receipts with inconsistencies.
- SOLAR maintained and updated the LBMA Good Delivery Listed refiners and their bar markings.

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

- SOLAR established a risk mitigation process and three (3) strategies were defined: conditional trade with mitigation; disengaging trade till re-assessment and re-approval; prohibit trade. An internal reporting process was defined.
- There was no “High-risk” or “Prohibit-trading” supply chain identified in 2017. 11 (eleven) counterparties were classified as Middle-risk during the assessment. SOLAR worked with all counterparties to design a Corrective Action Plan (CAP) and conducted a follow-up re-assessment. This resulted in 1 (one) individual supplier providing a few pieces of jewellery scraps in being finally disengaged during CAP because this individual supplier refused to provide ID information and did not have a future business plan with SOLAR. The rest of the CAPs were monitored and re-assessed. Documents including supplier questionnaires, assessment records, CAPs, counterparties’ feedback, and the General Manager’s approval were provided to the auditor for review.

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

- SOLAR’s initial LBMA full assessment had been completed in July 2017 and this assessment report document relates to the Annual Assessment Review based on the ISO19011:2011 standard. A copy of the assessment report will be shared with the LBMA Chief Executive for review against their published requirements for audits.

Step 5 - Report on supply chain due diligence

- SOLAR posted its supply chain policy and LBMA RGG Annual Summary Report in public with appropriate regard for security, proprietary information and the legal rights of other supply chain actors.

III. Correction of previous findings

- There were two minor non-conformances raised during the initial Full Assessment. The auditor was satisfied with the effectiveness of the corrective actions taken in view of ensuring no recurrence.

Finding #1 (Low-risk Non-Compliance):

1.1 Adopt a company policy regarding due diligence for supply chains of gold

The refiner adopted and publicly posted its gold supply chain policy. However, the two topics listed below were not covered in the policy even though the refiner had defined these topics in procedures and implemented them:

- Monitoring of transactions
- Maintaining records

Correction taken: The refiner had updated the supply chain policy such that it covered all risks and was consistent with the Model Policy of OECD Guidance. The updated policy was made public.
Status: Closed.

○ **Finding #2 (Low-risk Non-Compliance):**

2.2 Assess risks in light of the standards of their supply chain due diligence system

Information about beneficial ownership was not obtained by the refiner for one (1) out of the ten (10) sampled gold-supplying counterparties. This was a downstream manufacturer located in Taiwan, which provided industrial recycled gold to the refiner. The refiner had procured gold materials (PCB scraps) from this counterparty in June 2016.

The refiner had established and implemented a supply chain due diligence management system, based on the LBMA RGG, since April 2017. The refiner held an internal management discussion and agreed the date of August 2017 with the above-noted counterparty for an onsite visit to conduct enhanced due diligence practice. However, the enhanced due diligence process and timeframe were not defined in internal procedures.

Correction taken: The refiner had updated its internal procedures on risk assessment to collect gold-supplying counterparties' beneficial owner information and to assess this information against a government sanction list or conflict-affected and high-risk areas. This involves: 1) requesting counterparties to provide beneficial owner information by completing a questionnaire; 2) obtaining access to a government website to search shareholders and interested parties (especially for counterparties registered in mainland China); 3) participated in a local bureau (Taiwan Depository and Clearing Corporation) since January 2018 to be able to access a sanctions list and AML-CFT database worldwide.

A total of 15 gold-supplying counterparties' due diligence files were sampled and beneficial owner information was available for all of them.

Status: Closed.

Statement of the confidential nature of the contents:

All data contained in this assessment report, as well as all information obtained during the performance of the certification, is private and confidential between the auditing 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 within the assessment scope.

Assessment criteria:

- The auditor took into account all relevant objective evidence provided by SOLAR. Relevant evidence was either qualitative or quantitative as far as it was appropriate and sufficient to support the auditor's conclusions. Appropriate evidence was relevant and reliable. Sufficient evidence referred to the amount of evidence provided to allow the auditor to reach a conclusion.
- Any actual or potential gaps in the refiner's systems in regards to the LBMA requirements were rated in accordance to the level of risk each presented to the credibility and integrity of the LBMA Responsible Gold Programme for the responsible sourcing of gold-bearing materials.

Assessment Findings:				
Category/subcategory	Non-compliance/Observation: Include evidence found to substantiate the non-compliance as well as frequency of its occurrence.	Recommended corrective action	Timeframe for implementing corrective actions	Refiner comments
None				

Recommendations for Improvement:			
Category/subcategory	Observation:	Recommended area for improvement	
Step 1	1.1 Adopt a company policy regarding due diligence for supply chains of gold	The refiner had established internal procedures and tools for risk management, which covered all of the risks in the OECD Guidance Model Policy. The interviewed employees understood the scope of the risks. However, the internal procedures and tools use the wording “conflict areas” instead of “conflict-affected and human rights abuse high-risk areas”, and use “child labor” but not specify that “worst forms of child labor” is included.	It is suggested that the refiner should modify wording to be consistent with the LBMA RGG and to avoid any confusion.
Step 1	1.4 Strengthen company engagement with gold-supplying counterparties and, where possible, assist gold-supplying counterparties in building due diligence capacities	The refiner had communicated its gold supply chain policy and sourcing requirements to all of its gold-supplying counterparties. The company also encouraged its counterparties to make a written commitment and develop their own supply chain policy consistent with Annex II of the OECD Guidance Model Policy. However, 2 (two) out of the 15 sampled counterparties had not yet returned a written commitment or acknowledged the existence of a supply chain policy.	It is suggested that the refiner should assist counterparties to make a written commitment to compliance with a supply chain policy consistent with Annex II of the OECD Guidance Model Policy.

Assessment Conclusions	Compliant	Low	Medium	High	Zero Tolerance

Based on the above assessment conclusions, the overall rating of the Refiner's performance is determined to represent:	X				
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ASSESSMENT CONCLUSIONS		<i>Refer to the LBMA Third-Party Audit Guidance, Appendix 1 to determine the level of conformance for each sub-category¹.</i>					
		Non Compliance – risk level					
CATEGORY	SUBCATEGORY	Compliant	Low	Medium	High	Zero Tolerance	
A.	General Information						
B.	Step 1: Establish strong company management systems	1.1:	X				
		1.2	X				
		1.3	X				
		1.4	X				
		1.5	X				
C.	Step 2: Identify and assess risk in the supply chain	2.1	X				
		2.2	X				
		2.3	X				
D.	Step 3: Design and implement a management strategy to respond to identified risks	3.1	X				
		3.2	X				
		3.3	X				
		3.4	X				

¹ LBMA Responsible Gold Programme -Third Party Audit Guidance. Appendix 1: Definitions of Non-compliances. Pg. 43.

ASSESSMENT CONCLUSIONS		Refer to the LBMA Third-Party Audit Guidance, Appendix 1 to determine the level of conformance for each sub-category ¹ .					
		Non Compliance – risk level					
CATEGORY	SUBCATEGORY	Compliant	Low	Medium	High	Zero Tolerance	
E.	Step 4: Arrange for an independent third-party audit of the supply chain due diligence	4.1	x				
F.	Step 5: Report on supply chain due diligence	5.1	x				

The Auditors confirm that:

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

Lead Auditor: Jane Dan

Signature: *Jane Dan*

Date: 20 March 2018
