



## **Procedure to Identify**

### **Conflict Affected and High-Risk Areas (CAHRAs)**

#### **Philippine Chuangxin Industrial Co., Inc**

Unit D1&2, Greenmiles Compound, Iglesia Ni Cristo ST., STA Rosa 1, Marilao, Bulacan, Philippines

**Conflict Affected and High-Risk Areas (CAHRAs):** defined as areas identified by the presence of armed conflict, widespread violence or other risks of harm to people. Armed conflict may take a variety of forms, such as a conflict of international or non-international character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars, etc. High-risk areas may include areas of political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure and widespread violence. Such areas are often characterized by widespread human rights abuses and violations of national or international law. (OECD (2016), OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: Third Edition, OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264252479-en>)

In order to respect human rights, avoid conflicts caused or facilitated by mineral resources procurement, maintain the transparency of the raw material supply chain and the continuous development of enterprises and prevent trading of mineral resources from becoming conflicts, Philippine Chuangxin Industrial Co., Inc (PCX) creates its own procedure to identify Conflict affected and High-Risk Areas(CAHRAs). During operations, it ensures that PCX will not purchase or use minerals from the sites of conflict zone to prevent any “conflicting minerals” from getting into the PCX supply chain. The company's risk management policy is as follows:

1. Determine the type of risk associated with all company activities;
2. Determine the use of risk management measurement methods;
3. Setting risk tolerance;
4. Establish risk rating and priority assessment.

#### **1. Identification of CAHRA using country of origin including region and country of transit**

Philippine Chuangxin Industrial Co., Inc. applies three internationally recognized resources to identify suspected CAHRA countries (recommended by RMAP): Global peace index, resource governance index, and fundamental rights index.

<https://www.responsiblemineralsinitiative.org/minerals-due-diligence/risk-management/conflict-affected-and-high-risk-areas/>

##### **1.1 Global Peace Index (identification based on conflict issues)**

GPI is the world's leading measure of global peacefulness. Its report presents the

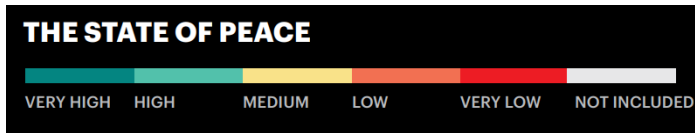


# PHILIPPINE CHUANGXIN INDUSTRIAL CO., INC.

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most comprehensive data-driven analysis to date on trends in peace, its economic value, and how to develop peaceful societies. The 2021 GPI reveals a world in which the conflicts and crises that emerged in the past decade have begun to abate, only to be replaced with a new wave of tension and uncertainty as a result of the COVID-19 pandemic and rising tensions between many of the major powers.

Philippine Chuangxin Industrial Co., Inc. stated that if a country or region has a “Low” to “Not Included” peace state, then it is declared as High-Risk Area.



Refer to the website: <https://www.visionofhumanity.org/resources/?type=research>

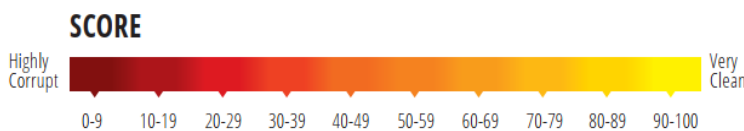
## 1.2 Corruption Perceptions Index (identification based on governance issues)

Good governance is the absence of corruption, such as the abuse of entrusted power for private gain. It can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs. (Source: Transparency International).

Transparency International is a global network leading the fight against corruption including more than 100 established national chapters.

The national chapters fight corruption on the national level in a number of ways, work independently and are self-financed. They bring together relevant players from government, civil society, business and the media to promote transparency in elections, in public administration, in procurement and in business. Transparency’s global chapter network also uses advocacy campaigns to lobby governments in order for them to implement anti-corruption reforms.

Philippine Chuangxin Industrial Co., Inc. stated that if a country or region has a score below 30 on CPI, it will be declared as High-Risk Area.



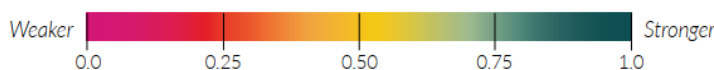
Refer to the website: <https://www.transparency.de/>

## 1.3 World Justice Project – Fundamental Right Index (identification based on human right issues)

The World Justice Project index of law 2021 presents a portrait of the rule of law in 139 countries and jurisdictions by providing score and ranking based on eight factors: constraints on government powers, absence of corruption, open government, fundamental rights, order and security, regulatory enforcement, civil justice, and criminal justice.

Philippine Chuangxin Industrial Co., Inc. stated that if a country has a legal compliance score below 0.25 on RLI, it will be declared as High-Risk Area.

Adherence to Fundamental Right Index





Refer to the website: <https://worldjusticeproject.org/our-work/research-and-data/wjp-rule-law-index-2021>

#### **1.4 Identifying Conflict-Affected and High-Risk areas for EU importers of minerals**

The European Union (EU) is committed to ensuring that its imports of minerals and metals are sourced responsibly and align with European policies on conflict prevention and development. In light of this commitment, Regulation (EU) 2017/821 (“the Regulation”) requires EU importers of tin, tantalum, tungsten and gold (and the minerals containing them) to carry out supply chain due diligence based on the five-step approach established by the OECD.

The list of EU CAHRAs as of 2021 are:

Afghanistan, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Colombia, Democratic Republic of the Congo, Egypt, Eritrea, Ethiopia, India, Libya, Mali, Mexico, Mozambique, Myanmar, Niger, Nigeria, Pakistan, Philippines, Somalia, South Sudan, Sudan, Turkey, Ukraine, Venezuela, Yemen, Zimbabwe.

Philippine Chuangxin Industrial Co., Inc. stated that if a country of the raw materials sourced is in above mentioned list, it will be declared as High-Risk Area.

In addition, Philippines is in the above list, but PCX recognizes that it has never sourced raw materials locally in the Philippines. There are two regions regarded as conflict-affected areas, they are Soccsksargen (Region XII) and Autonomous Region in Muslim Mindanao (ARMM), while PCX locates in Unit D1&2, Greenmiles Compound Iglesia Ni Cristo St Sta Rosa 1, Marilao, Bulacan, Philippines, so PCX is not in the conflict-affected areas.

Refer to the website: <https://www.cahraslist.net/cahras>

#### **1.5 Dodd Frank Act**

Section 1502 of U.S. Dodd Frank Act requires U.S. listed companies to disclose whether they use “conflict minerals” (tin, tungsten, tantalum and gold) and whether these minerals originate in the Democratic Republic of the Congo (DRC) or an adjoining country.

Philippine Chuangxin Industrial Co., Inc. stated that if a country of the raw materials sourced is in above mentioned Dodd Frank Act list, it will be declared as High-Risk Area.

#### **Conclusions:**

Philippine Chuangxin Industrial Co., Inc. states that if 1 out of 5 criteria of the area is found to be “High-Risk Area”, then the area will be considered CAHRA and Philippine Chuangxin Industrial Co., Inc. will not source its material from that CAHRA. The following procedure is used to review the new supply chain if the current supply chain alone is no longer sufficient.



Responsible person in charge: Lily Zhang

Title : Head of Business Department

To be reviewed and updated : Yearly

## **2. Identify CAHRAs Using Resources**

In addition to the identification of CAHRA using the local origin method, PCX developed additional selection and qualification procedures due to the additional risks associated with tungsten resource responsibilities, whereby further review and documentation is included in the selection of potential new tungsten suppliers. All supplier states that every material delivered to PCX is sourced in accordance with PCX's Supply Chain Policy, the format of all required documents referring to CAHRA procedures can be applied. PCX conducts inspection of all suppliers on the sanctions lists internationally and the list of rejected persons through the SAP Global Trade Service compliance system. This screening includes official lists of EU and other countries as updated from time to time. This action provides additional assurance that PCX's business partners are not affiliated with terrorists, narcotics dealers or other illegal groups.

## **3. Risk Assessment**

Currently there is no potential risk associated with CAHRAs because until now PCX has accepted raw materials all locating at non-conflicted countries and areas, Singapore, United States of America, Japan, South Korea, Thailand, Germany, Belgium, Netherland, Taiwan. However, if in the future potential risks are found, PCX will identify and follow up in accordance with the rules and suggestions from the RMI Organization.

## **4. CAHRAs Assessment**

Based on the CAHRAs (Conflict-Affected and High-Risk Areas) assessment procedure, the sourcing countries of PCX are all low-risk areas based on:

### **1) Global Peace Index**

The sourcing countries or regions of PCX are mostly Singapore, United States of America, Japan, South Korea, Thailand, Germany, Belgium, Netherland, Taiwan, almost all the countries are with high level of peace and the lowest score is the medium score.

### **2) Corruption Perceptions Index**

As per the CPI 2021, the lower a country scores, the higher the risk for that country. Almost all the sourcing countries of PCX scored above 60.

### **3) World Justice Project- Fundamental Right Index**

All the sourcing countries of PCX has a high score above 0.5.

### **4) EU CAHRA List**

No sourcing origin of PCX comes from the countries listed in the EU CAHRA list.



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### 5) Dodd Frank Act

No sourcing origin of PCX comes from the countries listed in the Dodd Frank Act list.

### 6) Frequency

- a. As each resource becomes updated and available; or
- b. At least annually.

To sum up, just as PCX only accepts secondary recycled tungsten materials from low-risk areas, none of PCX's suppliers are from high-risk areas. PCX won't be involved into the procurement of any high-risk sourcing because all the raw materials applicable to the production is only the second-hand recycling materials and no minerals or slags after minerals production are suitable for its technology. PCX signs supplementary agreement with its suppliers to require and guarantee raw materials come from non-conflict areas.

Philippine Chuangxin Industrial Co., Inc  
**For and behalf of**  
**PHILIPPINE CHUANGXIN**  
**INDUSTRIAL Co., Inc.**

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