

CHOW TAI FOOK

GROUP POLICY

Policy Version
V1

Policy Function
Supply Chain
Management

Policy Approver
Sustainability Committee

Chow Tai Fook Jewellery Group Limited Supplier Due Diligence Policy (Raw Materials)

1.	PURPOSE	2
2.	SCOPE	2
3.	AUTHORISATION AND OVERSIGHT	2
4.	DUE DILIGENCE MECHANISM & PRINCIPLES	2
5.	IMPLEMENTATION	8
6.	REPORTING	10
7.	REVIEW AND REVISION	10
8.	VERSION CONTROL	10
9.	KEY DEFINITIONS	10
10.	REFERENCE	11

CHOW TAI FOOK

1. Purpose

Chow Tai Fook Jewellery Group Limited and its subsidiaries (the “Group”) acknowledge the importance of preventing conflict resources or ethically challenged materials from being used in our business activities, which are centered on sustainability. We are committed to sourcing raw materials only from legitimate sources that are not associated with crime, armed conflict, or human rights violations. The Group has designed a due diligence mechanism and policy to safeguard against the risks of unethical jewellery raw materials. This Policy aligns with the expectations of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals (hereafter “OECD Guidance”), which is widely regarded as the best practice framework for responsible sourcing.

The objective of the due diligence mechanism is to identify and assess and mitigate the risks associated with CAHRAs (Conflict-Affected and High-Risk Areas) and AML/CFT (Anti-Money Laundering/Countering the Financing of Terrorism). If these risks are directly or indirectly linked to the activities of the Group, they must be prevented and mitigated.

2. Scope

This Policy applies to all jewellery raw materials procurement activities, including diamonds, coloured gemstones, and precious metals.

Due diligence should be conducted when a supplier is onboarded or when a red flag is identified during regular engagements, including but not limited to annual performance assessments, daily transactions, and business visits.

3. Authorisation and Oversight

This Policy is formulated and maintained by the Chief Operating Officer (“COO”) and approved by the Board Sustainability Committee (“SC”). The SC will oversee the implementation and effectiveness of the policy. The Sustainability Management Committee (“SMC”) has been consulted on the formulation of the policy.

4. Due Diligence Mechanism & Principles

The Group adopts a risk-based approach to determine the extent of due diligence to be performed and the level of ongoing monitoring required.

The due diligence mechanism focuses on assessing inherent risks in the jewellery industry, particularly those related to Conflict-Affected and High-Risk Areas (CAHRAs) and Anti-Money-Laundering (AML).

Other ethical business practices, such as dangerous working conditions, environmental damage, bribery and corruption, and violations of relevant regulations that could significantly impact our business, will also be considered during the risk assessment.

4.1 Due Diligence Implementation

The following are key principles for assessors to follow when performing due diligence:

4.1.1 Risk-based Approach

- (1) Apply a risk-based approach, focusing due diligence efforts on the most significant risks to the business and stakeholders. Less critical issues could be monitored for improvement through mitigation plans without necessarily requiring an in-depth review.
- (2) Consider the inherent risks of each supplier based on factors like their location, size, ownership, etc., to determine the level of due diligence warranted. Higher-risk suppliers will likely require more extensive reviews.
- (3) For new suppliers still in the onboarding process, it is essential to ensure that they take the necessary actions to address any issues before they are officially approved to supply raw materials.
- (4) For existing suppliers, it is important to regularly monitor their risk profile and determine whether any changes require further action.

4.1.2 Obtain and Verify Evidence

- (1) Conduct necessary assessments, including document reviews, interviews, and other methods to evaluate suppliers' controls, policies, practices, and risk management. Verify the information provided and identify any gaps, weaknesses, or non-conformances.
- (2) In some cases, suppliers may be reluctant to provide sensitive information. Procurement departments can gather information in several ways including:
 - Collecting information directly in meetings, which may be easier for Small and Medium Enterprises.
 - Using the "comply or explain approach" when information is unavailable. This is acceptable under a due diligence approach, provided that assessors can demonstrate the steps taken to seek information and have a plan to improve data collection over time.
 - The Group will ensure adequate resources for electronic data management, such as software enhancements to streamline information collection and verification process.

4.1.3 Due Diligence Period

- (1) When engaging a supplier in the due diligence process, clearly communicate the expected response time. The procedure typically takes 30-60 days to obtain adequate information from the supplier.
- (2) If information is not forthcoming, work with the supplier to develop a roadmap to obtain it within an agreed time frame. Document discussions and agreements with the supplier as evidence of due diligence activities. Suppliers must demonstrate some level of improvement. If they fail to provide any information, it may be necessary to disengage from that supplier.

4.1.4 Adopting a Neutral Stance for Reporting and Escalation

- (1) Apply due diligence consistently across all raw material suppliers to avoid preferential treatment. Maintain objectivity and rigour in the review process.
- (2) Work with suppliers to understand their challenges and provide the necessary resources or training to help them meet requirements, thereby strengthening the supply chain in a supportive way.
- (3) Report any serious issues or risks identified from the due diligence process to the appropriate business stakeholders and departments.

4.1.5 Continuous Improvement

- (1) Keep due diligence procedures and requirements up-to-date with the latest industry standards and expectations. Revise the programme as needed to continuously strengthen supply chain responsibility.
- (2) Continuously monitor trends in suppliers' responsible and ethical practices as well as industry developments. Identify and encourage best practices that exceed minimum requirements across the supply chain.
- (3) Track due diligence outcomes and use the data to analyse trends, assess the effectiveness of the programme, and determine where to focus efforts for improvement. Regular reporting on key metrics will demonstrate the maturity of the supply chain risk management programme to stakeholders.

4.2 Common Risk Factors

This section outlines the key risk scenarios that assessors should be aware of when performing the risk-based due diligence assessments. It provides a common understanding of the expectations for identifying, assessing, understanding, recording, and reporting risks to the assessors.

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Several risk factors must be considered to determine the level of risk associated with suppliers. Below are explanations of common risk factors:

4.2.1 Common Risk Factors of CAHRAs include:

- (1) **Geographical location of diamond mining and supply:** Some countries may have weaker regulations or governance over mining that could lead to unethical practices or human rights issues.
- (2) **Use of forced labour or child labour:** There is a risk of abusive or exploitative labour practices in raw material mining, sourcing or supply.
- (3) **Safety standards:** There is a risk of dangerous working conditions or lax safety controls in raw material mining, sourcing and supply that could endanger workers' lives.
- (4) **Bribery and corruption:** There is a risk of bribery or corrupt practices being used to disguise the origin of raw materials or evade regulations, allowing conflict resources or ethically challenged materials to enter the supply chain.
- (5) **Weak regulation of raw material mining and supply:** In sourcing countries, weak regulations could allow poor practices to go undetected.
- (6) **Lack of transparency into the origin of raw materials:** This makes it difficult to verify ethical and conflict-free sourcing.
- (7) **Mixing of certified conflict-free raw materials with uncertified materials:** This can occur either intentionally or due to poor controls, potentially tainted certified materials.
- (8) **Smuggling of raw materials:** Smuggling to avoid regulations and taxes enables unethical mining and trade of raw materials to flourish.
- (9) **Prone to money laundering or other financial crimes:** Certain raw materials can be easily transferred and traded for cash, making them susceptible to financial crimes.
- (10) **Inadequate capacity or resources among smaller raw material suppliers:** Smaller suppliers may struggle to effectively manage social, ethical, and environmental risks.

Known CAHRAs risks at the country level should refer to regular updates of the CAHRAs map report.

4.2.2 Common Risk Factors Related to AML/CFT:

- (1) **Supplier profile:** Consider the type of supplier, such as individuals, corporations, or politically exposed persons (PEPs), and their sources of wealth and income.
- (2) **Product/service:** The type of product or service offered, such as high-value transactions, wire transfers, or anonymous accounts, is a key factor in determining risk. Suppliers dealing in large volumes or high-value transactions have a higher risk of being exploited by money laundering.
- (3) **Geographic location:** The supplier's location or the location where the transaction takes place, such as high-risk countries or areas with weak AML controls, affects risk.
- (4) **Channel of delivery:** Consider the method used to deliver the product or service, such as online or mobile banking, or the use of third-party intermediaries.
- (5) **Transaction patterns:** Review the frequency, size, and nature of transactions, including any unusual or suspicious activity.
- (6) **Economic environment:** Assess the economic and political stability of the supplier's location, including the level of corruption and the risk of money laundering and terrorist financing.
- (7) **Legal and regulatory environment:** Consider the level of AML regulations and enforcement in the supplier's jurisdiction, including the level of cooperation between law enforcement agencies.
- (8) **Complex ownership structures or the use of shell companies:** These can obscure the identities of the true owners of raw material suppliers and must be taken into account.

The above common risk factors are only for reference only. Assessors must evaluate supplier's compliance with the Group's Supplier Code of Conduct and the accreditation status of third-party responsible business assurance programmes as applicable.

4.2.3 Zero-tolerance

The following practices are strictly prohibited. When identified with evidence, the procurement department and segment head must immediately discuss mitigation plan and consider suspending the business relationship with the suppliers or refraining from entering a business relationship.

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Risk	Prohibited Practices
Forced labour and inhumane treatment	The recruitment, movement, harbouring, or receiving of children, women or men through the use of force, coercion, abuse of vulnerability, deception, or other means for the purpose of exploitation.
Child labour and young labour	Refers to workers younger than 15 years (or the legal minimum age defined by the jurisdiction). Workers under 18 years old are subject to hazardous working conditions that are likely to harm their health, safety, or morals.
Falsified or fake records or attempts to inappropriately influence auditors	Falsifying or faking records, or inappropriately influencing auditors, is a serious offence. This includes falsifying records on compensation, working hours, or other working conditions, especially when such records cover a significant share of the workforce. Offences also occur when records are systematically used to deceive workers, their representative organisations, authorities and/or customers. Inappropriate attempts to influence the Group or other auditors assigned to assess company compliance with social and environmental standards, including through gifts, bribes, coercion, or any other means of intimidation or incentive to gain an illegitimate advantage, are also prohibited.
Serious threat to workers' health	It is unacceptable for workers to be exposed to hazardous working conditions without appropriate protection to reduce health and safety risks.
Serious threat to the environment	There is a high risk of violating environmental regulations that may cause significant damage to the environment or neighbouring communities. This includes, but is not limited to, emissions to wastewater, soil, and air.
Structural failure to workers' rights	Clear evidence of structural practices that result in workers' income not meeting local regulatory requirements. This includes regular and overtime payment, pension, holiday pay, tax deductions, insurance, or other benefits.
Serious abuses	Serious abuses associated with the extraction, trade, and transport of minerals.
Support to non-state armed groups	Direct or indirect support to non-state armed groups.
Financial crime corruption/bribery or money-laundering	Suppliers' entities or ultimate beneficial owners (UBOs) must not engage in corruption, bribery, money-laundering, or any other financial crime.

5. Implementation

5.1 Implementation Roles and Responsibilities

The responsibility for the operational implementation of this policy, particularly for risk assessment and the adoption of appropriate measures based on such risk assessments, lies with the procurement segments/departments. The head of the segment or department should designate a staff member who is independent of the activity being assessed and free from conflicts of interest to conduct due diligence and risk assessments.

5.2 Implementation Procedures

When onboarding a new supplier or a red flag being identified during regular engagement, due diligence must be conducted to assess the CAHRAs and AML risks of suppliers. The risks should be reasonably assessed, analysed, and reviewed. Appropriate measures should then be taken based on the evaluation results.

5.2.1 Risk Assessment and Evaluation

A risk-scoring mechanism has been established to evaluate the risk identified. Each supplier risk is evaluated based on the following criteria.

- (1) **Commercial consideration:** Includes supplier business nature, supplier grading and procurement volume, as defined by the procurement department, to reflect the potential risk impact on the supply chain.
- (2) **AML risk:** Identified from the “know your counterparty” (KYC) platform and verified by related supporting documentation.
- (3) **CAHRAs risk (origin/country of minerals sourced/manufactured):**
 - Country risk analysis based on the country risk index provided by CAHRAs MAP.
 - Third-party accreditation related to responsible supply chains.
- (4) **Adherence to our Best Practice Principles for Suppliers.**
- (5) **Willingness of collaboration and transparency:** Reflected in responses to the due diligence questionnaire.

The risk assessment matrix and scoring scale should align with the Group’s Enterprise Risk Management’s risk severity and risk level. The risk of individual suppliers identified during the due diligence process or on-going risk assessment should be evaluated by procurement segment management.

5.2.2 Risk Management

Based on the risk analysis results, relevant procurement departments are required to take appropriate measures if deemed necessary. Depending on the severity of the risk, such measures can include:

- (1) Consulting on risk mitigation measure with the Executive Director and obtaining confirmations from the Chief Operating Officer "COO".
- (2) Transmitting and evaluating questionnaires, as well as collecting external data.
- (3) Terminating an existing business relationship with certain suppliers or refraining from entering a business relationship.
- (4) Conducting on-site supplier audits.
- (5) Communicating with suppliers who have committed to corrective actions.
- (6) Discussing with management to adjust procurement volume.

When an AML risk is identified, the procedure for addressing it should refer to the Group AML Policy Manual.

5.2.3 Documentation

- (1) All monitoring activities must be fully documented, including planning, execution, findings, and follow-up. This documentation provides a record of the monitoring process and outcomes.
- (2) Documentation should be clear, organised and detailed enough to understand what was assessed, what was found and what actions were taken. Minimal or disorganised documentation makes it difficult to verify effectiveness and accountability.
- (3) Any personal data, trade secrets, or other confidential information obtained from suppliers during monitoring must be protected.
- (4) Regular reviews of documentation will be conducted, and records will be retained for a designated period. These reviews help identify any gaps, weaknesses, or areas for improvement in the monitoring process.
- (5) All documentation should be retained for at least five years for audit purposes unless otherwise specified by other laws/regulations.

6. Reporting

The risks and material issues related to conflict minerals or ethically challenged materials will be discussed in SMC meetings or procurement segment management meetings as needed to ensure that appropriate information regarding upstream sustainability risks is communicated to senior management in a timely manner, facilitating decision-making.

The following issues will be reported to SMC:

- (1) Industrial regulatory updates applicable to the Group that may lead to policy review or adjustments to relevant control mechanisms.
- (2) The annual supplier due diligence progress and results.

7. Review and Revision

The policy was reviewed and approved by the Board Sustainability Committee ("SC") on 19 Nov 2024. The Sustainability Management Committee ("SMC") will assist and advise the Chief Operating Officer and SC in reviewing the policy annually to ensure compliance with local laws and to continually strengthen supply chain responsibility in line with the latest industry standards.

8. Version Control

Record the version history of the Policy. For any new version, please add a field below the previous version to continue record keeping. Example as below:

Version	Policy Owner/Function	Effective Date	Key Updates
V1-202408	Chief Operating Officer (COO)	19/11/2024	Formal announcement for new release

9. Key Definitions

- (1) AML/CFT: Anti-Money Laundering/Countering the Financing of Terrorism. These measures are implemented by regulatory bodies to prevent and detect activities related to money laundering and terrorism financing.
- (2) CAHRAs: Conflict-Affected and High-Risk Areas. These are geographical areas identified as being at high risk of conflict or other types of instability.
- (3) PEPs: Politically Exposed Persons. Individuals who are or have been entrusted with prominent public functions, which can potentially pose a higher risk for involvement in bribery and corruption due to their position and influence.
- (4) UBO: Ultimate Beneficial Owner. The person who is the ultimate beneficiary of an entity or transaction, often used in the context of Anti-Money Laundering regulations.

CHOW TAI FOOK

- (5) Zero-tolerance practices: Practices that, if identified, should lead to the termination of suppliers.

10. Reference

This policy manual is designed with reference to the following codes, guidance and requirements:

- (1) The Organisation for Economic Co-operation and Development (“OECD”) published the OECD Due Diligence Guidance for Responsible Business Conduct to provide guidance for businesses to promote responsible and ethical conduct. The document is available on OECD’s website at: <http://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf>
- (2) The Responsible Jewellery Council (“RJC”) Code of Practices sets standards for responsible business practices in the jewellery industry. The guidance document is available on the RJC’ s website at: <https://www.responsiblejewellery.com/wp-content/uploads/RJC-COP-Guidance-April-2019.pdf>

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