



STERLING GROUP
— HOLDINGS LIMITED —
美臻集團控股有限公司

Environmental,
Social and Governance
(ESG) Report 2020/21

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About Sterling Group

Sterling Group Holdings Limited (hereinafter referred to as the “The Group” or “We”) was listed on Main Board of the Hong Kong Stock Exchange in 2018 (stock code: 1825). We are an OEM manufacturer of premium woven apparel serving international brands in the U.S. and UK markets. Our mission is to offer value-priced high quality garments with one-stop manufacturing services to our customers, as well as providing opportunities to our employees for their career development while delivering profitable returns to our shareholders. In addition, we strive to create a sustainable business model taking into account of the social-economic and environmental impact of our business development. We inculcate a sustainability culture within the Group raising our sense of duty, awareness and commitment to sustainability.

About the report

Welcome to Sterling Group Holdings Limited third Environmental, Social and Governance (“ESG”) report. This report acts as an important channel for us to communicate with stakeholders in regard to our efforts and performances towards social responsibility and sustainability. This report is prepared in accordance with the Appendix 27 Environmental, Social and Governance Reporting Guide to the Rule Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited and follows the “comply or explain” provisions. The reporting period focuses on the activities implemented during fiscal year of 2020 / 2021 (1 April 2020 to 31 March 2021).

The scope of this report covers Sterling Group core business activities that include the operations of production facilities:

Sri Lanka

- Chiefway Katunayake (Pvt) Ltd.
- Chiefway (Pvt) Ltd.

China

- Zhi Wei (Guangzhou) Garment Manufacturing Company Ltd.



The board of directors (“Board”) has overall responsibility for the Group’s ESG strategy and has delegated management to compile the report. The Group is committed to pursuing continuous improvement on the environmental and social responsibility aspects by collaborating with Group’s regional management team to formulate the sustainability strategy. We aim to map out our decarbonization strategy and promote social responsibility by providing a safe workplace for our employees. We develop and utilize Key Performance Indicators (“KPI”) to track the performance and closely monitor the progress to achieve continuous improvement. In order to tackle climate change, Group has formulated a climate goal based on our business model and operation. We believe that addressing climate would make good business sense, and it will be cost-effective in the long run through improving energy and operational efficiency. The progress will be regularly reported and reviewed by the Board and senior management of the Company.

We value your feedback on this report and our sustainability plan. Should you have any comments and suggestions, please feel free to contact us at sterling_esg@sphk.com.hk.

2.04M pcs
Garment Delivered

HKD 371 million
Turnover

us 94%
eu 5%
others 1%
Geographical markets

Sterling Sustainability Committee (SSC)

To implement the ESG initiative and formulate our Group's sustainability strategy, Sterling Sustainability Committee has been established comprising of senior management and other members of staff with sufficient ESG knowledge, and the authority to promote a company-wide awareness of the importance of ESG efforts. SSC members span from the leadership team to functional departments to ensure the concepts of environmental and social responsibility are taken into account and integrated into the management decisions as well as daily operations.

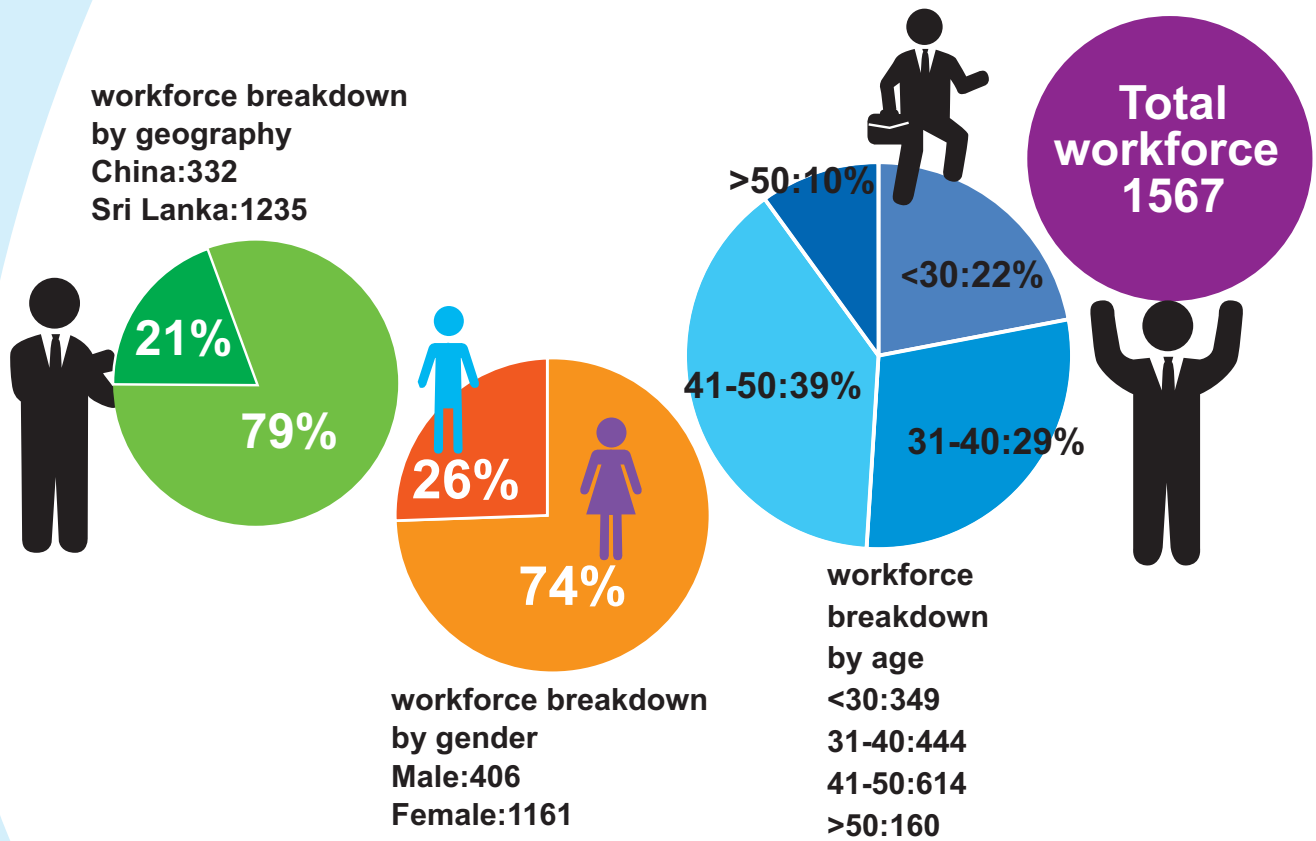


Sustainability Philosophy

Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs. The concept of sustainability comprises three major pillars: economic, environmental and social – it is integrated into our operation as profits, planet and people. We have inculcated among our employees the sustainability notion which has become an integral part of our manufacturing and operational activities, seeking to deliver profit and environmental & social benefits in a continuous and synergistic manner. Sustainability is multifaceted and defies our efforts to define the scope or the boundary of the issues concerned. The prevailing practice is linking sustainability to the environmental, social and governance issues. Examples of the concerned topic would include climate change, loss of biodiversity or modern slavery, which are the cornerstone of United Nations Sustainable Development Goals (“SDGs”). We have detailed illustrations of how our Group's business related to the SDGs in the relevant section.

We believe sustainable industrialization is essential to achieve sustainable development. It will unleash dynamic and competitive economic forces that generate employment and income, and enable efficient use of resources. We have put considerable effort in figuring out the room for improvement by integrating technology which plays an imperative role in encouraging manufacturing industries towards sustainable patterns of production while improving the industry's environmental performance.





Sterling Family

Sterling Group is committed to providing a fair and equitable work environment for all our employees regardless of their gender, age, nationality, religion, sexual orientation or physical abilities. The Group sets company requirements and expectations through our employee handbook and various policies. We ensure that all aspects of employment, including compensation and benefits, recruitment and selection, training and development, rewards and promotion, grievance and dismissal, working hours, rest periods, equal opportunity, anti-discrimination and other welfare meet or exceed the legal requirements. We also ensure that every employee, regardless which position he/she holds is treated fairly, lawfully and impartially.

41-50

About the United Nations Sustainable Development Goals

The Sustainable Development Goals ("SDGs") is a newer sustainability scoring concept initiated in 2015, which has been driven by the Division for Sustainable Development Goals in the United Nations Department of Economic and Social Affairs ("UNDESA"), and includes 17 SDGs with 169 targets*. The goals are a call for action by all countries to promote prosperity while protecting the environment. It recognizes that ending poverty must go hand-in-hand with strategies that build economic growth and addresses a range of social needs including education, health, equality and job opportunities while tackling climate change and working to preserve our oceans and forests.



Incorporating these 17 SDGs with our operations and sustainability strategy, we have mapped out the most relevant SDGs to the Group as the areas where we can make a contribution and bring a positive impact.

		Content of SDGs	Highlighted initiatives
		Ensure sustainable consumption and production patterns	Through the use of NATIVA sustainable wool with our U.S. buyer to ensure transparency, sustainability and responsibility for the entire supply chain, from garment manufacturing to farmers and animal welfare.
		Ensure availability and sustainable management of water and sanitation for all	Through the use of ZDHC (Manufacturing Restricted Substances List) with our UK buyer to ensure restricted chemicals are not used in production so as to minimize the possible impact of hazardous chemicals on production workers, local communities and the environment.
		End poverty in all its forms everywhere	Sterling Group's facilities located in Sri Lanka are certified with Fair Trade USA. One of the core values of Fair Trade is to move workers, their families, and their communities farther from the poverty line and blunt the negative impacts of poverty. It can demonstrate that we support our workers with sustainable livelihoods. Fair Trade Premium is an extra sum of money contributed by our buyer for improving the quality of their lives.
		Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	The overall training program is provided to workers to elevate their skill level. It also secures their chances of being employed in the long run. Skill development is an essential ingredient to develop workers' capacities and enhance their ability to participate fully in the life of their families and communities.
		Achieve gender equality and empower all women and girls	Through our robust social compliance system to ensure gender equality, our factories also attains WRAP accreditation and follows SMETA responsible business practices demonstrating our adherence to international standards.
		Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Our belief is to provide fair treatment, safe working conditions, and freely chosen employment. We forbid any forced, bonded, or indentured labor, involuntary prison labor, slavery or trafficking of persons within our supply chain. Through engaging with Fair Trade program that ensures decent work earns a decent living. Fair Trade program also connects end customers to producers by investing directly in the community from which they purchase Fair Trade products
		Take urgent action to combat climate change and its impacts	Group has formulated a climate target by adopting Science Based Targets initiative (SBTi) approach this year. In terms of operation, our factory has engaged with the cleaner production program for energy reduction and we will seek the opportunity to pursue our target.
		Ensure healthy lives and promote well-being for all at all ages	Through RSL (Restricted substances list) compliance to demonstrate our vision to create healthy products for our customers, which is also supported by our due diligence on product testing.

* For the details of 169 targets, please refer to <https://sustainabledevelopment.un.org/sdgs>

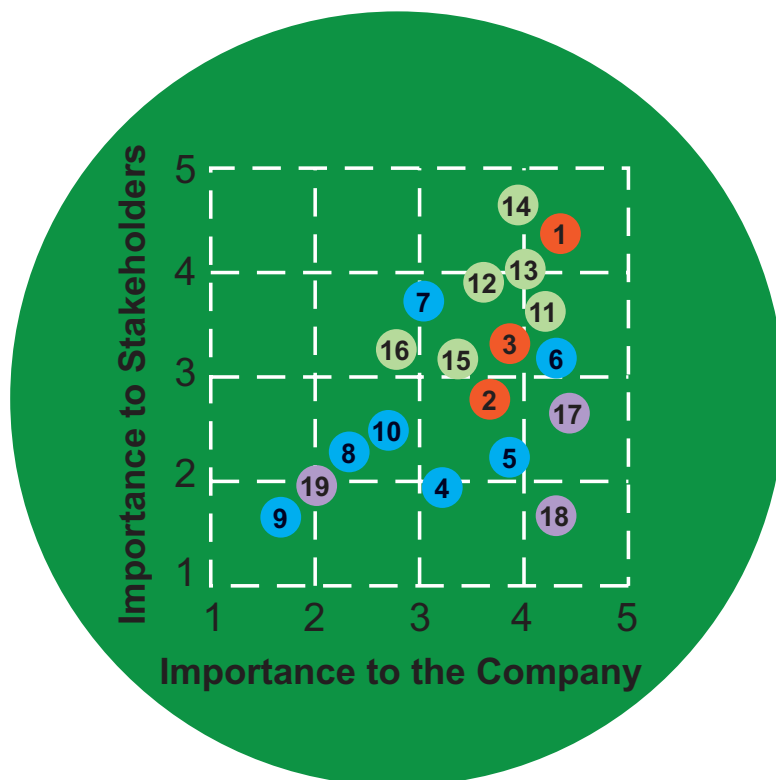
Stakeholder Engagement

Stakeholder engagement is an incubator of our sustainable development plan, which is an important step to gather valuable ideas about ESG issues for materiality assessment to identify the focus of our sustainability strategy. We have primarily engaged major stakeholders through various channels and enlarged our scope for this ESG report including staff, customers and board members. Our Sterling Sustainability Committee ("SSC") acts as a crucial role to reach out to different stakeholders during stakeholder engagement. We also obtain an understanding of the mindset of different stakeholders via questionnaires which provide us with a comprehensive assessment of different ESG topics.



Sustainability Materiality Assessment

The Group has identified 19 issues that are most material in the context of our business and day-to-day operations. A materiality matrix is developed from the result of stakeholder engagement exercises conducted. The materiality assessment and prioritization are summarized in the below matrix.



Area	Topic
Governance	1 Business Performance
	2 Risk Management
	3 Law Compliance
Environmental	4 Energy Consumption and Management
	5 Water Management
	6 Greenhouse Gas Emission
	7 Use of Materials
	8 Waste Management
	9 Transportation Management
	10 Chemical Management
Labour	11 Employee Diversity and Equal Opportunity
	12 Talent Attraction & Retention
	13 Employee Benefits
	14 Career Development and Training
	15 Occupational Safety and Health
	16 Employee and Labour Practice
Society Aspect	17 Anti-corruption
	18 Supplier Social Assessment
	19 Community Engagement

Climate Change

Sterling Group is committed to implementing the recommendations of the Task Force on climate-Related Financial Disclosure ("TCFD"), providing investors and stakeholders with useful information on climate-related



risks and opportunities that are related to our business. TCFD is a market-driven initiative that is set up to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream filings. We recognize climate change as the biggest environmental threat the world faces, and one which poses particular challenges to our business including our supply chain and operations. Moreover, responding to climate change can enhance our business resilience and enable us to take advantage of any opportunities it may offer. This is our first TCFD scenario analysis to assess our operation among our production facilities and critical garment suppliers. The following climate change-related risks and opportunities are taken into account on this basis:

Governance

Sterling Sustainability Committee ("SSC") is mandated by top management to oversee Sterling risk management including environmental risks. The committee is responsible for ongoing oversight of climate-related issues, oversees ESG risks and opportunities. The committee endorses the Group-wide sustainability policies and targets on parameters such as carbon emission.




Strategy

Climate change already presents current risks and opportunities, and it is expected that these will increase over time. Sterling, therefore, considers climate change to be an emerging development with potential for considerable risk to our long-term business model and strategy, and distinguishes physical and transition risks from climate change.

Physical risks relate to the physical consequences of climate change. These risks are particularly relevant to our production, where weather events such as windstorms or flooding can lead to higher expenditures, thus seriously affecting our operations and logistics. Transition risk concerns the transition to low-carbon economies, such as increasingly stringent regulations (regional, national and local) to limit carbon emissions that may increase the operational cost.

Risk Management

Sterling Sustainability Committee ("SSC") is responsible for identifying, assessing and managing climate-related risks that are integrated into our multi-disciplinary company-wide risk identification, assessment and management process. SSC recognizes and keeps abreast of the current and future climate-related legislation, policy and regulations that may negatively impact our business. For the purpose of disclosure recommended by TCFD, below is a description of the potential risks and impact on our business:

	Risks	Business Impacts 	
Physical Risks	Flooding	<p>Global scientific evidence suggests that climate change will increase both the frequency and severity of extreme weather events. The island nation of Sri Lanka possesses a hot and humid tropical climate, but a significant differences across variations in topography, the average annual rainfall varies from semi-arid area of the north-west and south-east of the island to south-western slopes of the central hills. Historical records from 1974-2004 indicate that frequency and intensity of floods are also increasing, and severe flooding has happened in western and south-western province. Both our facilities are located in affected area, so called "Wet Zone".</p>	<p>This acute risk could halt our production as well as supply of materials. The factory assets or machinery may be damaged and operation may be disrupted, causing delay of shipment delivery.</p> <p>Cyclical pattern of flood is prompting local people to stress and making it difficult to cope with their lives. Water and water-borne illnesses like dengue and malaria can be a direct effect of severe flooding, which can make it even more difficult to maintain sanitation.</p>
	Strong Typhoon	<p>Philippines, where our supplier located in, is one of the world's most typhoon impacted places. Climate change is causing stronger typhoons due to higher sea surface temperatures and higher subsurface sea temperature, which remove the natural buffer on typhoon strength occasioned when cold water up wells from below the ocean's surface. The stronger typhoons carry more moisture, track differently, move faster and will be aggravated by sea level rise. Climate change also causes increasing frequency of extreme weather events, rising temperature and extreme rainfall.</p>	<p>The production could be affected seriously by strong typhoons and workers get more difficult to commute. Factory assets may be damaged and the production could be affected as well as shipment delivery.</p> <p>Health risks from endemic vector- and waterborne diseases like dengue and malaria are expected to worsen with variable climate that includes increased heavy rains and temperature rising.</p>
Transition Risks	Environmental Tax	<p>Sri Lanka have plans to impose a new tax on all imported plastic products to protect environment and wildlife. In long term, Sri Lanka government will also halt manufacturing plastic and polythene in the country.</p>	<p>If the tax is imposed, our cost will be higher as plastic bag is essential for garment packing</p>
	Carbon Tax	<p>In September 2020, China president Xi pledged at the annual meeting of the United Nations General Assembly that China would adopt much stronger climate targets and achieve carbon neutrality before 2060. Carbon tax would be one of the tactics to reduce the energy consumption and it could be part of a suite of environmental protection taxes.</p>	<p>Our Group's operations in China will be affected. Energy producers subject to carbon tax are expected to transfer the carbon cost to our factory. This will affect our operating costs by increasing the price of energy and natural gas used for boilers.</p>

Responding the risks

Extreme Weather Events

Sterling has formulated strategies and procedures in order to ensure the resiliency of our operations and the physical security of our staff and production workers in case of extreme weather events. Our management team maintains a state of readiness that permits us to respond proactively and efficiently to events that may disrupt our operations.

Carbon Pricing

Sterling will seek opportunities to increase the energy efficiency of our operations that lead to ongoing energy reduction initiatives of our facilities. Energy-saving does not only contribute to energy cost, but also mitigates the risks related to carbon pricing cost increases.

Metrics and Targets

Our group energy consumption and carbon emission performance are monitored regularly and disclosed on an annual basis. Also, we have developed a climate goal in 5-year plan.

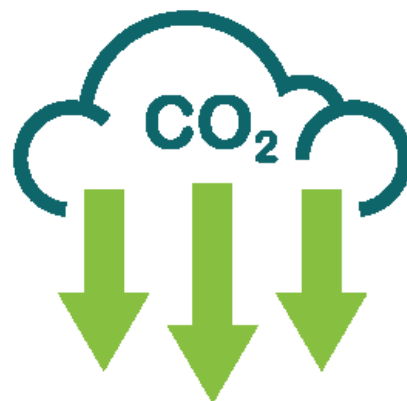
Climate Goal

Under the 2015 Paris Agreement, participating national governments have committed to limiting global temperature increase to well-below 2°C and pursue efforts to limit temperature increase to 1.5°C. Beyond 1.5°C, the world will increasingly experience dangerous climate impacts and humanitarian crises linked to drought, sea level rise, flooding, extreme heat and ecosystem collapse. Sterling Group, as an important party in our value chain has adopted Science Based Target initiative ("SBTi") guidance which supports companies across the apparel and footwear sector value chain to set ambitious and science-based GHG emission reduction target ("SBTs"). The Science Based Targets initiative is a collaboration among Carbon Disclosure Project, the United Nations Global Compact ("UNGC"), World Resources Institute ("WRI"), and the World Wide Fund for Nature ("WWF"), and champions SBT setting to boost companies' competitive advantages in the transition to a low-carbon economy. We believe that meeting SBT does not only contributes to our planet, but also increases business resilience and competitiveness, thereby transforming business practices and building reputation in the market.

Various target-setting methods are available to set the SBT, which differ in terms of whether they calculate targets as percentage reduction in absolute emissions or emissions intensity based on a physical or economic metric. Absolute contraction approach has been utilized to set our emission reduction target which is the most straightforward approach for linking our target to well below 2°C pathway. A minimum 2.5% annual linear reduction is projected to 2025 target, therefore,

“Sterling Group commits to reduce absolute scope 1 and 2 emissions 15% by 2025 from a 2019 base year.”

The support for such ambitious target comes from our top management and we take climate change issue very serious. ESG committee is responsible for monitoring the progress and collaborating with our factories to accomplish our target.



Environmental Management

The apparel supply chain is increasingly making a shift towards eco-fashion and promotes sustainable supply chain through collaboration with the farm, fabric mills and garment manufacturers. Starting with incoming fabric in garment manufacturing, we perform cut and sewn process, and actively engage with different programs like NATIVA™ in order to ensure sustainability and traceability.

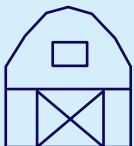
Sterling Group strives to comply with all the relevant environmental laws and regulations. There is no violation of any applicable environmental laws during the reporting period. Our core business is garment manufacturing with primarily a cut and sewn production process, which does not involve any laundry or dyeing process, with no industrial wastewater generated during production in our garment factories. Purchased electricity is the main source of power to operate our facilities, from fabric cutting to garment assembly and packing for delivery. The production process mainly includes cutting, sewing, pressing, finishing and packing. There is no direct industrial pollution, and significant air emission and hazardous wastes are lubricant oil and light tubes. The non-hazardous wastes are fabric scraps and discarded cartons, which totaled around 230 tonnes in 2020/21 with intensity 0.2kg/garment produced. All wastes are collected by professional companies for further processing or recycling.

We adopted the following basic measures among our business units including the Hong Kong office:

- Turn off unnecessary air conditioning and lighting during lunch hours and non-essential hours.
- Turn off idling equipment after work.
- Use energy-efficient LED's in office.
- Maintain indoor temperature at 24°C – 26°C in offices.
- Perform maintenance regularly to keep operating efficiency of air conditioning system.

For our China factory – Zhi Wei, we have utilized new technology for our air-conditioning system which reduces energy consumption. Please refer to the section – Cleaner Production Program.

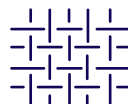
Certified Farms



Wool Spinning

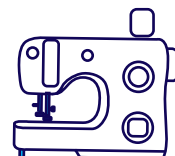


Certified Wool Sourcing and Combing



Weaving / Knitting

Manufacturing



Garment with NATIVA™

Cleaner Production Partnership Program

Sterling Group participated in the Cleaner Production Partnership Program launched by the Environmental Protection Department of Hong Kong SAR in collaboration with the Economic and Information Commission of Guangzhou Province in 2018. The program aims to drive the adoption of an integrated preventive environmental strategy in manufacturing of products and provision of services to increase and reduce risks to human beings and environment. Our project commenced in 2019 by applying new technology – COOLNOMIX to the air-conditioning system in Zhi Wei (Guangzhou) Garment Manufacturing Company Ltd.

Our air-conditioning system makes use of the room temperature to determine the run-time of the compressor. Most of the time, compressor overruns to achieve the desired temperature. COOLNOMIX Optimized Refrigerant Supply ("ORS") system employs data from two installed precise temperature sensors to determine the running time of the air-conditioner's compressor.

The first sensor replicates the function of room temperature measurement and is employed by COOLNOMIX ORS to deliver the required room temperature as a priority, and the second sensor is to measure the temperature of the cold-supply air from the air-conditioner. Together they determine when the compressor has completed hydraulic work of fully compressing the refrigerant gas. Making use of room temperature measurement is to prevent the compressor from continuing to run when the refrigerant gas is fully compressed. COOLNOMIX ORS can stop or slow down the compressor whilst the air-conditioner uses the reservoir of cooling capacity that has been created to cool the room. Finally, increase in idling time or reduction of the running time of compressor produces electricity saving.

The efficiency of the system depends on various factors like thermal source from production process, room size, humidity...etc. In terms of energy usage (purchased electricity), total consumption in 2020/2021 is 706 MWh in Zhi Wei, which is less than the consumption from 2019/2020 of 1162 MWh.



Higg Index

The Higg Index is a suite of tools developed by the Sustainable Apparel Coalition that enable facilities and brands to accurately measure and score their environment or social performance. Sterling Group has adopted Higg facility tools – Facility Environmental Module (FEM) to measure the environmental performance of our factories and improve the transparency for our customers by having an assessment of each facility operation. To a certain extent, adopting Higg Index and utilizing Higg self-assessment questionnaire does not only increase the awareness of sustainability, but also let us easily identify the key areas for improvement across our facilities and drive continuous improvement. What is most important is to shed some light on our sustainability strategy by systematically capturing the environmental data.

We also use Higg Index as an industry-wide assessment tool to evaluate the environmental performance in our supplier base. It facilitates inculcating an awareness of environmental issues and providing an environmental indicator in the supplier's sustainability journey. In the year 2020, we have collaborated with some of our critical garment suppliers to engage with Higg FEM, which is also an important stepping stone to promote the climate concept and share our vision with our supply chain. The tool provides a standardized approach to capture the environmental sustainability performance with a comprehensive guideline so subsequent analysis can be done to formulate an improvement plan.

Seven sections of FEM V3:

- Environmental Management System
- Energy and Greenhouse Gas Emissions
- Air Emissions
- Water Use
- Wastewater
- Waste Management
- Chemicals Management



Looking forward, all those FEM will be verified by qualified and vetted professionals to validate the accuracy of information. The verification program helps to strengthen the autonomy of facilities so it can empower the supply chain to drive measurable performance improvement through ongoing collaboration.

Energy Consumption & Greenhouse Gas Emission

Sterling Group is committed to utilizing resources efficiently in order to reduce environmental impact. The main source of power is purchased electricity for the Group's production facilities so its usage is strictly monitored. In addition, our China factory utilizes natural gas for our boilers. Natural gas is much cleaner energy to use than other fossil fuels and produces less soot, not to speak of the fact that natural gas production is also better for the environment. In terms of greenhouse gas emission, natural gas combustion produces less carbon dioxide with higher efficiency.

We embrace a vision of satisfying the desire of every business partner and responding to the latest global trend in sustainability. We have an internal environmental policy in place and ensure the low emission and energy-saving measures are fully considered in our operational activities. Also, we endeavor to minimize the use of energy through proper maintenance of equipment, improvement of equipment designs & installation and increasing employees' awareness of energy-saving habits.

Energy Type	Electricity	Natural Gas	Diesel Oil	Petrol	Refrigerant*
Consumption	3,116 MWh	86,754 m ³	92,825 liter	10,987 liter	68.74kg
Intensity (per garment)	2.76 kWh	0.08 m ³	0.08 liter	0.01 liter	—

Greenhouse Gas ("GHG") Emission	Unit	Emission
GHG Emission (Scope 1)	tonnes CO ₂ e	529
GHG Emission (Scope 2)	tonnes CO ₂ e	2,106
Total GHG Emission	tonnes CO ₂ e	2,635
GHG Emission Intensity (per garment)	kgCO ₂ e/pc	2.33

2,635 tonnes CO₂e
Total carbon footprint

2.33 kgCO₂e/garment
Carbon intensity

Illustrations on environmental data:

- 1) Greenhouse gas emission (scope 1) mainly comes from the consumption of diesel and natural gas. The energy consumption coefficient refers to the emission factors of IPCC2006 Guideline for National Greenhouse Gas Inventories.
- 2) Greenhouse gas emission (scope 2) is from electricity purchased from power suppliers. In respect of the greenhouse gas emission factor, "Climate Transparency (2019 Report)" is referred to electricity consumption in China, whereas Sri Lanka electricity grids relies on "Sri Lanka ODSM – Presidential Task Force on Energy Demand Side Management."

Scope 1: It represents the diesel, natural gas and fuel consumption by stationary and mobile sources.

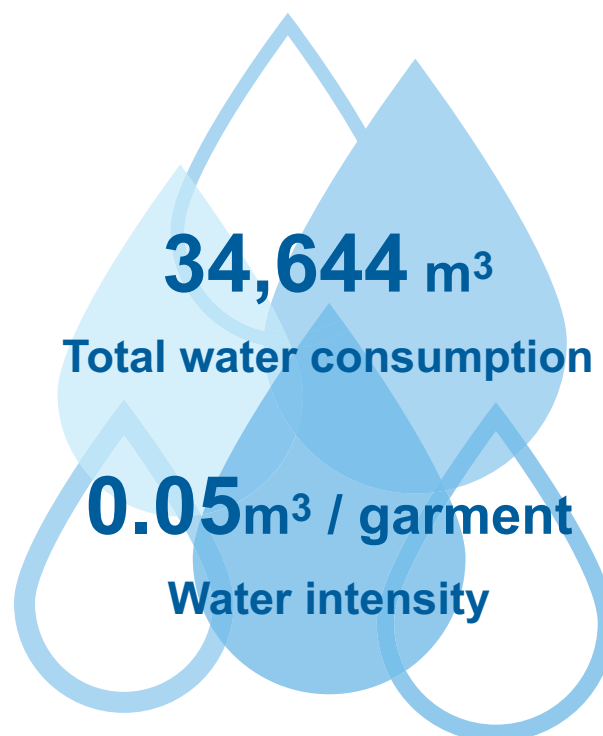
Scope 2: It represents the electricity purchased from power suppliers.

* Refrigerant includes R32, R22, 410 and R407A.

Water Consumption

The Group does not involve fabric processing or washing, so the amount of water used in production is not significant. In our operation, the main water usage is for domestic use. We provide ongoing education to our employees on how to conserve water and ensure maintenance of the water system and equipment to eliminate leakages.

Chiefway Katunayake (Pvt) Ltd. and Zhi Wei (Guangzhou) Garment Manufacturing Company Ltd. are well equipped with metering to monitor water consumption. However, since water is sourced from underground at Chiefway (Pvt) Ltd., the use of meter is not feasible so relevant water usage data is not available.



Use of Packaging Materials

The packaging materials used in our operation are mainly corrugated carton boxes for garment shipments, tissue paper, plastic bags, hangers and cardboards. Most of the packaging designs are specified by our customers and we have minimal control over the types of materials used for packaging or the packaging method because we need to comply with customers' requirements. We strive to not over-order, have better handling and utilization of materials to reduce wastage. Waste materials within facilities are sorted out by categories and collected by designated agent for proper recycling.

Fair Trade USA Factory Program

Fair Trade USA is a non-profit organization and the leading certifier of Fair Trade products in the United States. The Fair Trade Certified seal on a product signifies that the product was made according to rigorous Fair Trade standards, which promote sustainable livelihoods and safe working conditions, environment awareness and supply chain transparency. For every Fair Trade Certified product sold, a Fair Trade Premium will be contributed by the retailer and goes into the Community Development Fund at the factory level. Then the factory's democratically elected Fair Trade Committee will decide how to spend this fund to improve workers' lives and meet collective needs, as well as the needs of the communities and environment.



Sterling Group is honored to participate in the Fair Trade program partnering with our largest customer, an iconic brand in American fashion apparels. Our two Sri Lanka factories – Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd. have gone through the comprehensive awareness program, Fair Trade Committee election and formation, and the certification process by Fair Trade-appointed third-party Conformity Assessment Body. In view of the sustainability of the entire garment supply chain, from fiber ingredient production, through cut and sewn processes until after the product leaves a consumer's hands, each party in the supply chain is an integral part in contributing to sustainability. Both Sri Lanka's facilities, as Fair Trade certified factories, play a crucial part in the supply chain from the cutting and sewing of fabrics to finishing and packing of final garments. We commit to creating sustainable livelihoods, safe working conditions and much needed transparency.

Fair Trade committees meet up regularly to produce ideas for Fair Trade projects. There are a number of proposals to fund community projects, like healthcare programs, child-care or purchase of essentials for improvement of workers' lives. The Fair Trade program does not only improve workers' welfare, but also encourages dialogue between workers and management. In the coming year, we will continue to provide full support to the agreed projects under the Fair Trade Program.

Sterling Group fully supports Fair Trade because we believe Fair Trade is not just a market, but a social movement to bring strength, hope and real choice to the consumers and workers making the products. We see the Fair Trade program ushering a new global business model that helps secure our profitability and competitiveness while protecting the environment and ensuring a fair return to the workers' community.

Health and Safety

To ensure our standards in productivity and quality assurance, Sterling Group strives for keeping our factories safe from occupational hazards and work injuries of our employees. The Group maintains a working environment that allows employees to feel valued, fostering high morale among them. Workers are provided with sufficient safety training for their job tasks and high quality safety equipment in their workplace. We aim for zero accidents in our facilities and ensure our safety policies adequately protect our employees, the greatest asset in our company.

All of our factories have designated qualified officers to oversee and manage health and safety issues. Relevant on-site assessment is conducted on a regular basis to ensure the safety of the workplace and the safe operation of equipment and machinery.

Number and rate of work-related fatalities	0
Lost man-days due to work injury	31

Training and Development

Solid technical skills and good quality products are two of the key success factors in our business. To attach sustainability and continuous improvement, the Group constantly invests in enhancing employee performance, increasing motivation and productivity and upgrading new production skills through on-the-job training, external training and internal skill exchange group.

Our approach to learning and development is to facilitate honest, transparent coaching, feedback and recognition, while supporting employee development and engagement. Training includes but is not limited to health and safety, fire safety, chemical handling, ergonomic, WRAP and Fair Trade awareness program. During the reporting period, the Group offered more than 9,000 training hours to all employees.

Total training hours More than 9,000

Labour Practice

Our code of conduct and corporate values empower our employees to recognize human rights, freedom of association to protect their interests, and denounce child and forced labour. We have established a robust hiring system to prevent child labour; the most important of which is building awareness and advocacy in our Group and those in a position of decision-making to prevent child and forced labour, particularly through education. In order to share our vision for supplier engagement, we have social compliance program to cover all critical suppliers by on-site social compliance audit. Please refer to the section on "Supply Chain Management".

Another core element in our social management system is that no discrimination is allowed based on race, age, gender or sexual orientation. Wages & benefits and working hours are in strict compliance with local labour laws and our customers' requirement. The Group does not encounter any non-compliance with relevant laws and regulations during the reporting period.

WRAP Accreditation

Worldwide Responsible Accredited Production ("WRAP") is an independent, non-profit organization dedicated to promoting corporate social responsibility standards in all factories around the world. Our Sri Lanka factories, Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd. have been certified under the WRAP program since a number of years ago and are accredited with the Gold rating. This means we are in compliance with WRAP's 12 important principles based on generally accepted international workplace regulations including the spirit or language of relevant conventions of the International Labour Organization ("ILO"), the principles encompassing human resources management, health & safety, environmental practice and legal compliance including import/export and customs compliance and security standards.



SMETA

Sedex Members Ethical Trade Audit ("SMETA") is one of the most widely used ethical audit formats which combines the best practices in the field of corporate social responsibility. It focuses as much on labour conditions and occupational safety as on environmental standards and ethical business practices. Our China factory, Zhi Wei (Guangzhou) Garment Manufacturing Co., Ltd. has engaged with SMETA by collaborating with third-party audit firms and aims to drive improvements in ethical and responsible business practices.

Product Responsibility

The Group places a high priority and awareness on product quality and safety. This is an area where we put considerable effort to meet and exceed our customers' expectation. In terms of product safety, most of the raw materials are nominated by our customers. All materials and products need to pass a strict compliance process and are subject to testing in accordance with stipulated specifications. In addition, Sterling Group has a dedicated Quality Assurance team to oversee product quality from the prototype stage for risk assessment, and materials stage to final garment assembly. Every single production step is strictly monitored through our internal quality control system. Our ultimate goal is to ensure that good quality and safe products, and services are delivered to our customers.

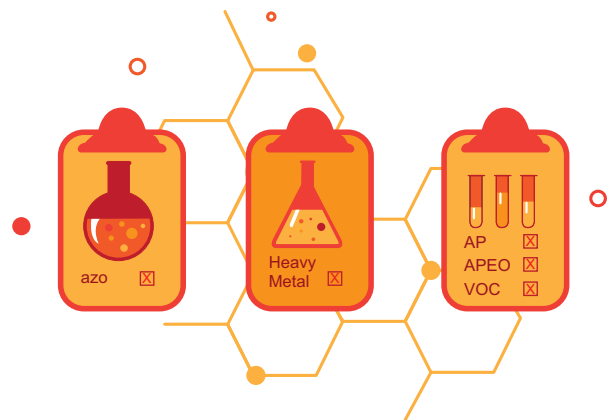
The Group respects and protects our customers' intellectual property. We have systematic measures and handling procedures in our production facilities to maintain strict control over customers' licensed materials, including but not limited to secure storage of licensed materials and accountability for the issued materials at the end of each shift. For the personal and trade information with customers, the Group controls access to such information, and ensure those who possess such information know the importance of confidentiality and privacy. Unauthorized disclosure of such information may be a breach of the company's employment contract. There are no product recall cases, compliance and non-compliance issues with any related laws and regulations due to product responsibility and data privacy-related matters during the reporting periods.

Green Procurement and Chemical Management

Sterling Group is fully aware that hazardous substances in our garment products are not only harmful to our end customers, but also directly damage our environment. That is the reason why we place a high level of care and importance in the sourcing and procurement of fabrics and trims. We understand that the textile industry accounts for large amounts of chemicals used during manufacturing, and discharge of these chemicals threatens local water sources and constitute environmental impacts. In order to mitigate influence on the environment, we adopt Restricted Substances List ("RSL") as our green procurement standard for fabrics and trims procurement. This also renders the materials we use environmentally preferable.

We have formulated our RSL policy and requirements in 2015, which is aligned with AFIRM (Apparel and Footwear International RSL Management) restricted substances list. The policy makes clear our expectations to materials suppliers in regard to the use of chemicals by adopting RSL which identifies a list of chemicals restricted in consumer products. It

aims to reduce the hazardous substances in our final garments and mitigate the environmental impacts as well. To that end, all the suppliers need to comply with RSL requirements in our procurement policy and we will use alternate sources in case of non-compliance. The entire procurement process is managed by the purchasing department which directly reports to the leadership team. Besides, we have engaged with a British luxury fashion brand and participated in their program to strengthen our chemical management with fabric mills by utilizing Manufacturing Restricted Substances List ("MRSL") from Zero Discharge of Hazardous Chemical ("ZDHC") program to avoid using potentially hazardous substances in their manufacturing processes. This is accomplished by effluent testing against ZDHC standard. In order to manage RSL compliance systematically, a designated executive having received ZDHC Chemical Training and collaborating with the purchasing department is responsible for tackling chemical management across the entire supply chain.



Supply Chain Management

We understand that effectively managing suppliers is critical to the success of our business. However, nowadays supply chains have become more geographically diversified and our number of suppliers steadily increase due to our business nature. In order to mitigate any disruption that arises within the supply chain potentially damaging our financial performance and company's reputation, we need to take a strategic approach to classify our suppliers and allocate more resources to the critical suppliers that have a significant impact on our business.

Scope of Critical Supplier – It will have a significant impact on our product quality, and issues from these vendors could potentially cause recalls and harm to the customers. Overall, we will focus on the suppliers that substantially contribute to the completion of the final products. These are the suppliers that require the most of attention and monitoring to ensure that social and environmental risks are under control and properly managed.

Sterling Group is committed to engaging our suppliers fairly and lawfully. We collaborate with our suppliers to make sure that they respect human rights, promote decent working conditions and improve sustainability. A grading system is utilized to manage social and environmental risk across our supply chain. This is the leading indicator used for supply chain analysis and it is also the management tool to evaluate entire supply chain performance. The following initiatives are all part of the process of supplier engagement:

- Sterling Group Responsible Sourcing Policy.
- Supplier Self-assessment.
- On-site social compliance audit and gap analysis.
- Supplier capacity building and education.
- Non-conformance remediation.

Supplier engagement is done by a designated Compliance team, who is responsible for communicating with suppliers our requirements and perform an on-site audit. Our role is to reassure customers and key stakeholders that our products are ethically and sustainably produced. The compliance function is directly reporting to an Executive Director and Chief Operating Officer. It ensures transparency and open communication between the compliance team and senior management of the Company.



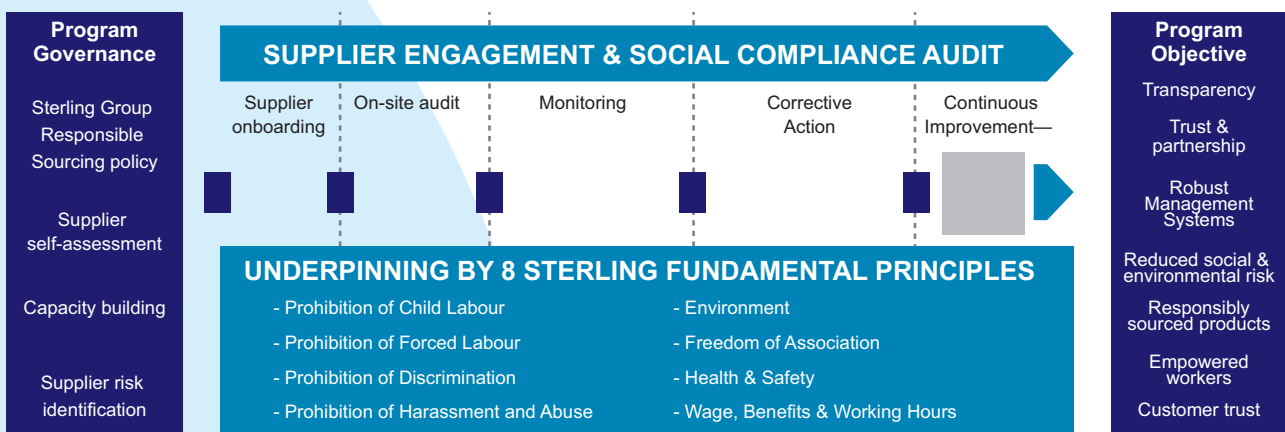
Audit and Remediation

To monitor compliance with the Sterling Group Responsible Sourcing Policy, all garment suppliers are requested to go through a self-assessment and on-site social compliance audit on an annual basis. This sequence of supplier engagement actions increase the visibility of our employment practices and enable us to proactively monitor the compliance of our responsible sourcing policy, identify ethical sourcing risks, drive the resolution of identified non-conformances and address the areas of supplier capacity development.

Non-conformances are assessed as critical, major and minor based on the severity through our designated audit checklist which consists of worker’s welfare, labour right, health and safety, environmental risk. Every garment supplier is being classified by the score which represents the risk level. We aim to build a long-term business relationship with our suppliers and collaborate to improve the working condition within reasonable time frame so any non-conformances are required to be remediated within an appropriate time period depending on its nature and severity. A comprehensive corrective action plan needs to be formulated and subsequent follow-up actions including desktop review or on-site verification will be arranged to ensure compliance. Furthermore, Sterling Group strictly follows a Zero Tolerance Policy for the egregious issues which include but not limited to Child Labour, Forced Labour, Discrimination, Harassment and Abuse, Imminent Health and Safety Threat.



Due to the COVID-19 pandemic, the travel restriction was implemented last year so most of the on-site social compliance audit has been on hold. However, supplier Self-assessment covered all new garment suppliers during the initial engagement process to ensure compliance with our minimum requirements. Looking forward, the score data of the social compliance audit could be used as an analytical indicator for supplier segmentation and subsequent factory improvement plan to pinpoint specific areas for improvement. Analyzing this data-driven indicator, enables us to manage the risk inherent in our supplier base proactively and systematically at the top level.



Environmental and Social Risk along Supply Chain

Sterling Group, as one of the key OEM manufacturers in the local apparel industry, is a supplier to a number of reputable and luxury brands in the U.S. and UK. Supply chain management is vital in managing our partner factories and ensuring their continued qualification. We understand that nowadays we are more than ever exposed to a diverse set of risks in operating our supply chain. We do not only operate from a purely economic standpoint, but are also concerned with sustainability management which is an extension of our company's target and responsibilities. Therefore, social and environmental risks are necessary to be included into assessment besides economical risks. In order to achieve this goal, we have formulated a robust Responsible Sourcing system following Sterling's Code of Conduct to standardize our requirements and establish the Group's internal assessment framework to evaluate the level of capability and performance of our suppliers.

By considering our value chain environmental and social risks ("E&S"), E&S impacts can cause production delays, negative publicity and damage on reputation, threats to operating licenses and unforeseen expenditures. Following our business model and supply chain framework, three systematic risks can be categorized:

Financial Impacts

- Low productivity due to workplace accidents and lost hours from workers' injuries.
- Unexpected costs associated with meeting regulatory compliance requirements or payment of fines.
- The cost associated with remedying non-conformance or avoiding impact on employees' health.

Legal Impacts

- Fines for non-compliance with environmental, sanitary, health, safety and labour laws.
- Suspension of operation by regulators.

Reputational Impacts

- Loss of sales due to the poor image of company and deterioration of business relationship with buyers.
- Increase in recruitment cost due to poor reputation or E&S incidents.

Those impacts are interrelated so E&S risk may be more substantial in our business's value chain. Indirect risk could be more material than direct risk with major consequences. For example: increase in fabric cost if suppliers need to comply with the new environmental regulations by employing new technology or substituting ingredients with green products.

Local Community

The Group has set up volunteer teams to play a proactive role in facilitating local community activities and help the needy and underprivileged in the community we operate in. In 2020, our china team visited some families in need of support and provided some groceries and donations as well.



Code of Conduct and Anti-Corruption

Our Code of Conduct, Anti-Bribery Policy and associated policies set out the responsibilities, standards and requirements that Sterling Group expects all employees - to act honestly and fairly, comply with all laws and Company policies and report any suspicions of breach thereof.

The Anti-Bribery Policy also prohibits bribery and related misconduct, and gives internal staff and business associates information and guidelines on how to identify and deal with incidents of bribery and corruption. Breach of any of these policies by our employees may be regarded as serious misconduct, leading to disciplinary action that may include termination of employment. Breach of any of these policies by our business associates may lead to termination of any business contract or further legal action. The company believes that honesty, integrity, and mutual respect between people are the most important part of the business Code of Conduct, and one of the most important elements for sustainable development. We do not have any litigation or allegation of corruption in the reporting period.

At the management level, for any policies and procedures that may generate and involve conflicts of interest, there are authorization procedures in place to ensure a system of checks and balances. The higher the value of a transaction, the more check and balance procedures are involved. The management team ensures at all times that the Company's Code of Conduct and prevention of corruption measures are implemented thoroughly and effectively.

When an existing company policy is updated, or when a new policy is formulated, it must be formulated in accordance with the laws of the Hong Kong government and the rules of the Hong Kong Securities and Futures Commission. Policies that deal with anti-bribery must be reviewed and approved by the CEO, COO and CFO.

Anti-corruption Training

The Group implements the anti-corruption Code of Conduct with due diligence. In the first phase of training in May 2021, the Group invited an external experienced consultant to conduct online training. Participants consist of all assistant managers or above, including independent non-executive directors. This two-hour long training aims to raise the awareness against corruption temptation in daily work and enhance knowledge of anti-corruption laws.

The Group plans to incorporate the anti-corruption Code of Conduct into the employee induction program in late 2021 so that all new staff understand the importance of the Code of Conduct on the first day of their employment.

Monitoring and Follow-up

The Anti-Bribery Policy and Whistleblowing Policy will be reviewed and finalized in the coming directors meeting. The policy should be implemented in 2021.

Our Data

SOCIAL KPI

B1.1	Workforce Structure	Total workforce(full-time)	1567
		Male	406
		Female	1161
		< 30	349
		31 - 40	444
		41 - 50	614
		> 50	160
		China	332
		Sri Lanka	1235
B1.2	Employee Turnover rate	Total turnover rate	49%
		Avg. monthly turnover rate	4 %
		Male	31%
		Female	55%
		< 30	89%
		31 - 40	48%
		41 - 50	26%
		> 50	33%
		China	33%
Sri Lanka	53%		
B3.1	Percentage of employees trained	Percentage of total employees who took part in training	100%
		Male	26%
		Female	74%
		Supervisory level	4%
		Administrative staff	16%
		Production team	80%
B3.2	The average training hours completed per employee	Average number of training hours	5.8
		Male	6.5
		Female	5.6
		Supervisory level	13.2
		Administrative staff	5.6
		Production team	5.7
B5.1	Number of Supplier (Critical Supplier) by geographical region	China	17
		Philippines	1

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