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

**Environmental,
Social and Governance
(ESG) Report 2022/23**

CONTENTS

About Sterling Group

Sterling Group Holdings Limited (referred to as "The Group" or "We") have listed on the Main Board of the Hong Kong Stock Exchange with the stock code 1825 since 2018. As a leading OEM manufacturer, we specialize in the production of premium woven apparel for international brands in the highly lucrative U.S. markets.

Our mission is centered around delivering exceptional value to our customers. We accomplish this by offering high-quality garments at competitive prices, coupled with streamlined one-stop manufacturing services. Simultaneously, we prioritize the growth and development of our employees, providing them with valuable opportunities for their career advancement. By fostering a supportive and enriching work environment, we ensure that our team members are motivated and engaged, ultimately contributing to our overall success.

To achieve sustainable long-term growth, we are dedicated to implementing a business model that incorporates social, economic, and environmental considerations. Recognizing the importance of responsible corporate practices, we have embraced a sustainability culture within our organization. This entails an unwavering commitment to our sense of duty, heightened awareness, and proactive measures to minimize our environmental impact.

By upholding sustainability principles, we strive to create a positive social and economic impact while safeguarding the environment. Our comprehensive approach takes into account factors such as resource efficiency, waste reduction, and ethical sourcing, enabling us to mitigate potential risks and enhance our overall competitiveness in the market.

As a publicly listed company, the Group is committed to providing exceptional value to our customers, fostering employee growth, and upholding sustainable business practices. By adhering to these principles, we aim to generate profitable returns for our shareholders while simultaneously contributing to the betterment of society and the environment.

About The Report

Welcome to the fifth Environmental, Social, and Governance (ESG) report of Sterling Group Holdings Limited for the fiscal year 2022/2023. This report serves as a crucial platform for us to engage with our stakeholders and communicate our dedicated efforts and achievements in the realm of social responsibility and sustainability. Our commitment to transparency and accountability is demonstrated by the adherence to 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, following the "comply or explain" provisions.

Our global operations span multiple locations, including Sri Lanka and China. In Sri Lanka, we operate Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd., both integral to our value chain. In China, Zhi Wei (Guangzhou) Garment Manufacturing Company Ltd. continues to play a pivotal role in our manufacturing capabilities.

Sri Lanka
•   Chiefway Katunayake (Pvt) Ltd.
•   Chiefway (Pvt) Ltd.
China
•   Zhi Wei (Guangzhou) Garment Manufacturing Company Ltd.

3.1M pcs
Garment Delivered

HKD 623 million
Turnover

**US 96%
EU 2%
OTHERS 2%**
Geographical Markets

As we present this report, we reaffirm our commitment to promoting sustainable practices and generating long-term value for all our stakeholders. By transparently sharing our ESG initiatives, performance metrics, and future strategies, we strive to foster trust and demonstrate our responsible corporate citizenship. Through our unwavering dedication to robust ESG principles, we aim to address the environmental and social challenges inherent in our industry while driving positive change.

This report underscores our ongoing efforts to embed sustainability into every aspect of our business operations, guided by our commitment to delivering superior products and services in an ethical and responsible manner. We remain steadfast in our pursuit of excellence and look forward to continued collaboration with our stakeholders as we work towards a sustainable future.

The Group recognizes the importance of fostering effective communication with our stakeholders to provide them with comprehensive insights into our management and development approaches to ESG issues. This report serves as a valuable platform for us to share our progress and initiatives in sustainability, and we encourage open dialogue and feedback from our stakeholders.

We greatly value your input and feedback on this report, as well as our broader sustainability plan. Your perspectives and suggestions are essential in shaping our future strategies and enhancing our ESG performance. Please don't hesitate to reach out to us at sterling_esg@sphk.com.hk with any comments, suggestions, or inquiries you may have.

By actively engaging in constructive discussions with our stakeholders, we aim to strengthen our ESG practices, align our goals with their expectations, and collectively drive positive change. We appreciate your ongoing support and collaboration as we strive to achieve our sustainability objectives and create long-term value for all our stakeholders.

Sustainability Governance

In today's business environment, our group firmly recognizes ESG (Environmental, Social, and Governance) as a paramount and integral aspect that demands the attention of boards. It is an essential component of our governance framework, and our leadership team is fully cognizant of their responsibilities in addressing ESG issues. With a steadfast commitment to sustainability, the board of directors (referred to as the "Board") is entrusted with the task of overseeing and addressing environmental and social concerns that have a material impact on our operations and businesses.
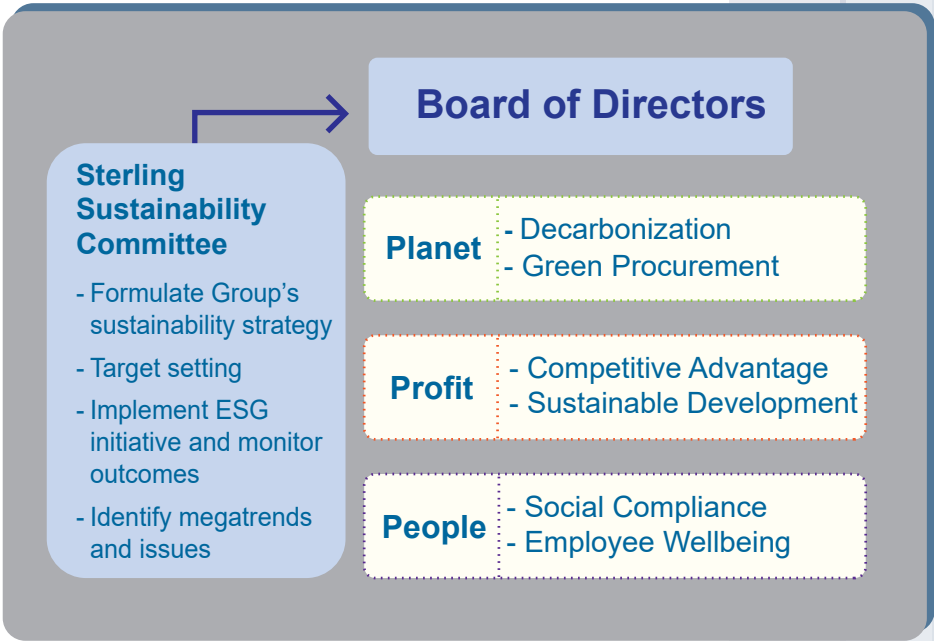
Within the organization, the Sterling Sustainability Committee assumes a pivotal role in driving and evaluating the implementation of ESG initiatives across all our operation sites. By ensuring the integration of sustainability into our day-to-day operations, we strive to align our actions with our commitment to sustainability.

As public and community interests in ESG continue to evolve, maintaining a sustainable and ethical approach to our business practices is crucial for shaping our competitive edge in the marketplace. The Board and management collectively play a critical role in translating ESG values into our company strategy.

Our group remains dedicated to pursuing continuous improvements in environmental and social responsibility. To achieve this, we actively collaborate with our regional management teams to formulate a robust sustainability strategy. We place particular emphasis on developing a decarbonization strategy to address climate change while promoting social responsibility through the provision of a safe workplace for our employees.

Recognizing that addressing climate change is not only a moral imperative but also a sound business decision, we have developed a climate goal that aligns with our business model and operations. We firmly believe that addressing climate change will yield long-term cost savings through enhanced energy and operational efficiency. The progress in achieving our climate goals will be regularly reported and reviewed by the Board and senior management of the Company, ensuring transparency and accountability.

By adhering to our ESG principles, we aim to enhance our reputation, mitigate risks, and drive sustainable growth. Through collaborative efforts and a commitment to continuous improvement, we strive to create long-term value for our stakeholders while contributing to a more sustainable future.

Board of Directors

Sterling Sustainability Committee

- Formulate Group's sustainability strategy
- Target setting
- Implement ESG initiative and monitor outcomes
- Identify megatrends and issues

Planet
- Decarbonization
- Green Procurement

Profit
- Competitive Advantage
- Sustainable Development

People
- Social Compliance
- Employee Wellbeing

Sterling Sustainability Committee (SSC)

In order to effectively implement our ESG initiative and develop the sustainability strategy of our Group, we established the Sterling Sustainability Committee (SSC). This committee consists of senior management and other staff members who possess in-depth knowledge of ESG matters. Equipped with the necessary authority, the SSC plays a crucial role in driving company-wide awareness regarding the significance of ESG efforts.

The SSC comprises members from various levels of the organization, including the leadership team and representatives from different functional departments. This diverse composition ensures that the principles of environmental and social responsibility are thoroughly considered and integrated into management decisions and daily operations.

By harnessing the collective expertise and perspectives of the committee members, the SSC strives to effectively address ESG challenges and opportunities across our Group. Through collaboration and coordination, we aim to develop a comprehensive sustainability strategy that aligns with our business objectives and enhances our long-term performance.

✉ sterling_esg@sphk.com.hk

The establishment of the SSC underscores our commitment to fostering a culture of sustainability throughout the organization. By actively involving senior management and staff members, we reinforce the importance of ESG practices and encourage their integration into our business processes. This holistic approach enables us to create value for our stakeholders while ensuring responsible and sustainable operations.

Moving forward, the SSC will continue to drive the implementation of our ESG initiatives and work in tandem with various departments to embed environmental and social responsibility into our decision-making processes. By doing so, we strive to achieve meaningful progress towards our sustainability goals while upholding our commitment to transparency and accountability.

Sustainability Philosophy

Sustainability lies at the core of our business, aiming to meet present needs without compromising the ability of future generations to meet their own. This holistic concept encompasses three fundamental pillars: economic, environmental, and social considerations, which are ingrained in our operations as profits, planet, and people. We have successfully fostered a culture of sustainability among our employees, where it has become an integral part of our manufacturing and operational activities. Our approach seeks to deliver both financial success and environmental and social benefits in a continuous and synergistic manner.

Sustainability is a complex and multifaceted concept that defies strict boundaries. However, we align our efforts with prevailing practices, connecting sustainability to environmental, social, and

governance issues. For instance, we prioritize areas such as climate change, biodiversity conservation, and combating modern slavery, all of which are pivotal elements of the United Nations Sustainable Development Goals (SDGs). In the following sections, we provide detailed illustrations of how our Group's business activities relate to the SDGs.

We firmly believe that sustainable industrialization is a prerequisite for achieving long-term and balanced development. By embracing sustainable practices, we unlock dynamic and competitive economic forces that generate employment, foster income growth, and enable efficient use of resources. In this pursuit, we have dedicated significant efforts to identify areas for improvement by integrating technology, which plays a crucial role in driving manufacturing industries towards sustainable production patterns.
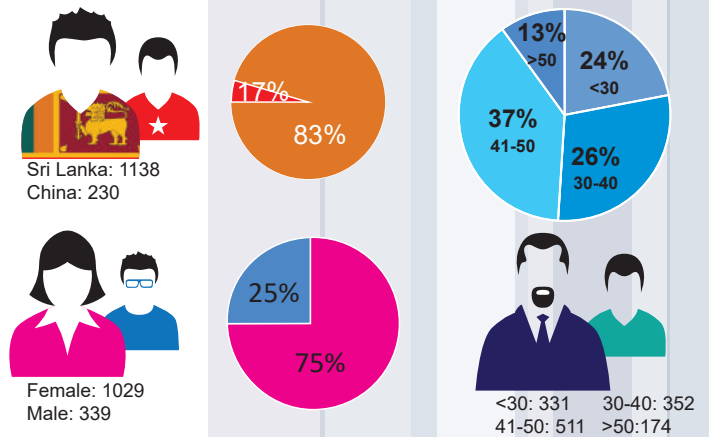
At the heart of our sustainability endeavors lies our commitment to people and society. We recognize the importance of social well-being and aim to create a positive impact on the communities where we operate. Through various initiatives likes Fair Trade program, we prioritize the welfare and development of our employees, striving to provide a safe, inclusive, and engaging workplace.

In summary, sustainability remains a cornerstone of our business strategy, guiding our decisions and actions. We actively seek opportunities for improvement, leveraging technology and industry best practices to enhance our environmental performance. By embracing sustainable industrialization and fostering a socially responsible approach, we strive to contribute to the well-being of our stakeholders, while securing a resilient and prosperous future for generations to come.

Sterling Family

Breakdown of Workforce

Sri Lanka: 1138
China: 230

17%
83%

13%
>50
24%
<30
37%
41-50
26%
30-40

Female: 1029
Male: 339

25%
75%

<30: 331   30-40: 352
41-50: 511   >50:174

At Sterling Group, we prioritize creating a work environment that upholds principles of fairness and equality for all our employees, irrespective of their gender, age, nationality, religion, sexual orientation, or physical abilities. We are firmly committed to fostering an inclusive culture where diversity is celebrated, and every individual is treated with respect and dignity.

To ensure consistency and transparency in our employment practices, the Group has established comprehensive guidelines and policies outlined in our employee handbook. These policies cover various aspects of employment, including but not limited to compensation and benefits, recruitment and selection, training and development, rewards and promotion, grievance and dismissal procedures, working hours, rest periods, equal opportunity, anti-discrimination measures, and employee welfare.

We place great emphasis on surpassing legal requirements and adhere to stringent standards. Our aim is not just to meet legal obligations but to exceed them, providing an environment that promotes equal opportunities and safeguards against discrimination in all its forms. We are committed to upholding the principles of fairness, lawfulness, and impartiality in our treatment of every employee in every production site, regardless of their position within the organization.

Our dedication to fairness and equality extends beyond written policies. We foster a culture that encourages open communication, collaboration, and mutual respect among our workforce. We actively promote a work environment that values diversity and actively seeks to eliminate any barriers or biases that may hinder equal opportunities.

PEOPLE
SOCIAL

SUSTAINABILITY

PLANET
ENVIRONMENT

PROFIT
ECONOMY

5

Driving Positive Impact towards SDGs

The Sustainable Development Goals (SDGs) were introduced in 2015 as a newer sustainability scoring concept. Spearheaded by the Division for Sustainable Development Goals in the United Nations Department of Economic and Social Affairs (UNDESA), the SDGs encompass 17 goals with 169 targets. They serve as a global call to action for countries to promote prosperity while safeguarding the environment. The SDGs recognize the interconnectedness of poverty eradication, economic growth, social needs, climate action, and environmental preservation.

At our company, we have incorporated the SDGs into our operations and sustainability strategy. We have identified the most relevant SDGs that offer opportunities for us to contribute and create a positive impact. Our approach focuses on three major aspects of our operations: the raw materials stage, production phase, and finished product stage. Each stage aligns with different corresponding SDGs, enabling us to address a wide range of sustainability challenges.

RAW MATERIALS

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.

GARMENT MANUFACTURING

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.

GARMENT DELIVERY

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.
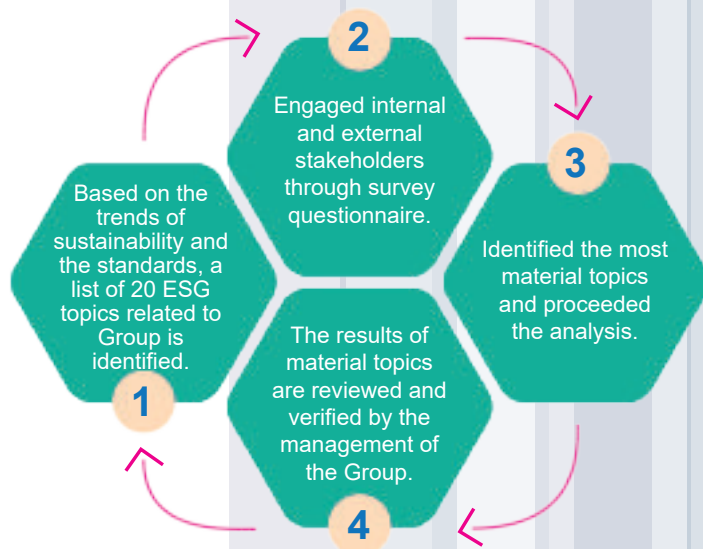
Stakeholder Engagement

Stakeholder engagement is a critical element of our sustainable development plan, serving as an incubator for gathering valuable ideas and insights on ESG issues. Through engagement with major stakeholders, including staff, customers, and board members, we assess materiality and identify the key focus areas of our sustainability strategy. Facilitated by the Sterling Sustainability Committee, stakeholder engagement enables us to understand their expectations, concerns, and suggestions, shaping our decision-making processes. We employ comprehensive questionnaires to gain a holistic understanding of stakeholder perspectives, fostering collaboration and driving the implementation of impactful sustainability initiatives. Our commitment to stakeholder engagement empowers us to create a more sustainable and responsible future.

# Sustainability Materiality Assessment

The Group has conducted a comprehensive materiality assessment to identify the most significant ESG topics relevant to our business and day-to-day operations. Through stakeholder engagement exercises, we have identified 20 key topics that hold the greatest importance in the context of our operations. These topics encompass various aspects of the environment, labor practices, social impact, and governance.

The materiality matrix, derived from our stakeholder engagement initiatives, serves as a valuable tool for prioritizing and understanding the significance of these ESG issues. It allows us to gauge the level of impact and importance associated with each topic, enabling us to allocate resources effectively and address the most material issues first.

By utilizing the materiality matrix, we ensure that our sustainability efforts align with the expectations and concerns of our stakeholders. This transparent approach enables us to focus on the areas that have the greatest potential to generate positive outcomes for both our business and society as a whole.

2 Engaged internal and external stakeholders through survey questionnaire.

3 Identified the most material topics and proceeded the analysis.

1 Based on the trends of sustainability and the standards, a list of 20 ESG topics related to Group is identified.

4 The results of material topics are reviewed and verified by the management of the Group.

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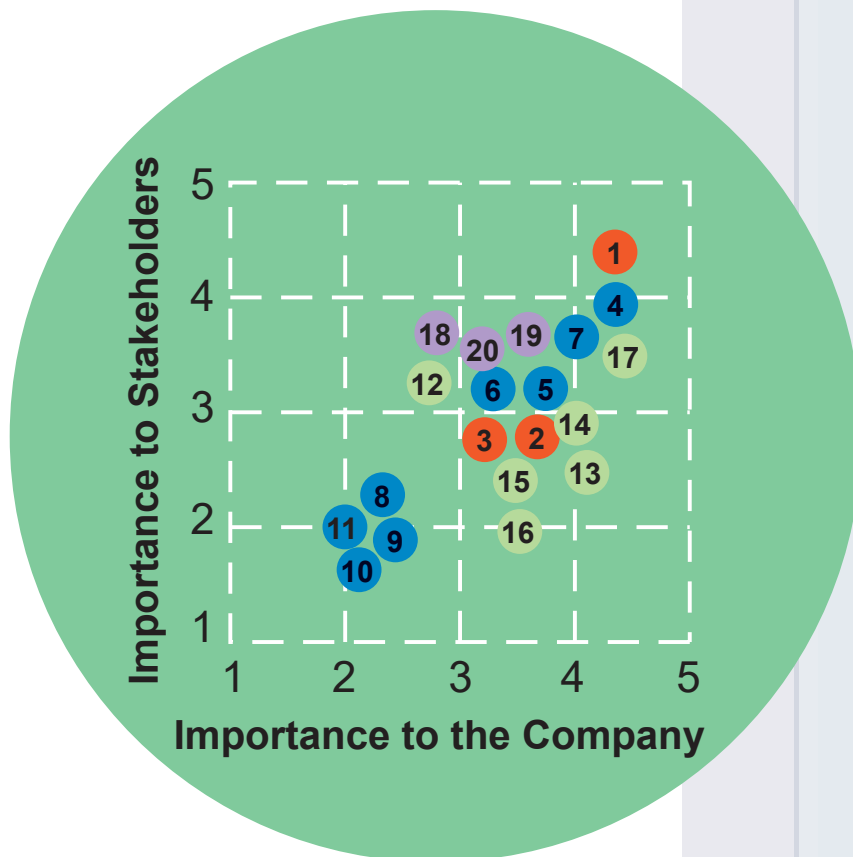
Climate Change

Sterling Group is fully committed to implementing the recommendations put forth by the Task Force on Climate-Related Financial Disclosure (TCFD). We recognize the significance of providing investors and stakeholders with comprehensive and relevant information regarding climate-related risks and opportunities that are pertinent to our business operations. TCFD represents a market-driven initiative aimed at developing a standardized framework for voluntary and consistent disclosure of financial risks associated with climate change in mainstream filings. By aligning ourselves with these recommendations, we aim to enhance transparency and facilitate informed decision-making for our stakeholders.

Climate change stands as one of the most pressing environmental challenges of our time, posing unique risks and challenges to our operations and supply chain. We acknowledge the need to address climate change effectively, not only to mitigate risks but also to seize potential opportunities and bolster the resilience of our business. Conducting our inaugural TCFD scenario analysis, we have assessed the impact of climate change across our production facilities and critical suppliers. This analysis enables us to identify specific climate change-related risks and opportunities that are material to our business.

The SSC serves as a key forum for strategic discussions, where the identification and evaluation of environmental risks and opportunities are thoroughly examined. Through its collective expertise and engagement with relevant stakeholders, the committee provides valuable guidance and recommendations to top management, helping to shape our sustainability strategy and ensure its effective implementation throughout the organization.

By leveraging the expertise and oversight provided by the Sterling Sustainability Committee, we are better equipped to identify, assess, and address environmental risks, thereby fostering a culture of sustainability and resilience within our organization. Our collective efforts, guided by the committee's stewardship, will enable us to navigate the complexities of the ESG landscape and drive sustainable value creation for our stakeholders.

Governance

Sterling Group has established the Sterling Sustainability Committee (SSC) to fulfill a vital role in our organization. Under the mandate of top management, the SSC is entrusted with the responsibility of overseeing risk management, particularly in relation to environmental risks. This committee plays a crucial role in continuously monitoring and addressing climate-related issues, as well as overseeing the identification and management of ESG risks and opportunities.

As part of its responsibilities, the SSC actively endorses and supports the implementation of Group-wide sustainability policies. It also sets targets and parameters that guide our sustainability efforts, including those related to carbon emissions. By doing so, the committee ensures that our sustainability initiatives are aligned with our overall business objectives and contribute to our long-term success.

Strategy

Sterling recognizes that climate change is not only a current reality but also a growing concern with significant implications for our long-term business model and strategy. We acknowledge the presence of both risks and opportunities associated with climate change, and we are committed to effectively managing them.

Climate change represents a structural shift that has the potential to impact the global economy in profound ways. As a responsible business, we understand the importance of identifying and assessing the risks involved. One category of risk is physical risks, which arise from the effects of climate change such as rising global temperatures and the increasing frequency and severity of extreme weather events like floods and hurricanes. These risks have direct implications for our operations, especially in terms of production. Weather-related incidents such as windstorms or flooding can result in increased expenses and significantly disrupt our operations and logistics.

In addition to physical risks, we also recognize the importance of addressing transition risks. These risks are associated with the ongoing transition towards low-carbon economies, which involves the implementation of stricter regulations at regional, national, and local levels to curb carbon emissions. The potential impact of these regulations on our operations cannot be overlooked, as they may lead to increased operational costs and necessitate adjustments to our business practices.

By proactively considering and managing both physical and transition risks related to climate change, we aim to safeguard our business and enhance our resilience in the face of these challenges. We are committed to staying abreast of evolving climate-related regulations and incorporating sustainable practices into our operations. This approach not only mitigates potential risks but also positions us to seize the opportunities that arise from transitioning to a low-carbon economy.

At Sterling, we view climate change as a significant factor in shaping our business strategy and future direction. Through diligent risk management and a proactive mindset, we strive to minimize our environmental footprint and contribute to the global effort to address climate change.

By embracing sustainability as an integral part of our business, we aim to create long-term value for our stakeholders while navigating the evolving landscape of climate-related risks and opportunities.

Risk Management

The Sterling Sustainability Committee (SSC) holds the responsibility of identifying, assessing, and effectively managing climate-related risks within our organization. These risks are seamlessly integrated into our comprehensive, multi-disciplinary company-wide risk identification, assessment, and management process. The SSC remains vigilant in monitoring and staying updated on existing and forthcoming climate-related legislation, policies, and regulations that have the potential to adversely affect our business operations. In alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), this report outlines the potential risks identified and their anticipated impact on our business.

Physical Risks

Flooding

Flooding is a growing concern in Sri Lanka due to the increasing frequency and severity of extreme weather events caused by climate change. Our facilities are located in the affected areas known as the "Wet Zone." To mitigate risks, we closely monitor weather patterns, invest in infrastructure improvements, and engage in proactive flood management strategies. Our goal is to ensure the continuity of our operations and protect our employees and assets from potential disruptions. Through our commitment to environmental sustainability and risk management, we strive to navigate the challenges posed by flooding and maintain business continuity.

Business Risks and Responding to the Risks
The business impacts of flooding can be substantial, including damage to facilities, equipment, and inventory, disruptions to production and operations, delays in delivery and logistics, increased costs for repairs and replacements, potential loss of customers and market share, as well as reputational damage. Businesses may also face challenges in ensuring the safety and well-being of employees and managing insurance claims. Implementing flood risk assessment, preventive measures, and contingency plans can help mitigate these impacts and enhance business resilience.

Typhoon

The Philippines, where our major supplier is located, is highly susceptible to the impacts of typhoons. Climate change has contributed to the intensification of typhoons through higher sea surface temperatures and subsurface sea temperature. These changes disrupt the natural balance that mitigates typhoon strength by upwelling cold water from below the ocean's surface. As a result, stronger typhoons with increased moisture content, altered tracks, higher speed, and potential exacerbation from sea level rise are observed. Additionally, climate change leads to more frequent extreme weather events, rising temperatures, and increased rainfall. Understanding these climate risks is crucial for our operations and supply chain management, as we strive to implement resilience measures and contribute to sustainable solutions in the face of these challenges.

Business Risks and Responding to the Risks
Typhoons can have significant business impacts, including physical damage to infrastructure, supply chain disruptions, increased operating costs, business interruptions and revenue loss, as well as potential reputation damage. To mitigate these impacts, businesses can implement risk assessment, disaster preparedness plans, insurance coverage, supply chain diversification, and resilient infrastructure investments.

Shifting Towards a Low-Carbon Economy

Transition Risks

The transition risk in Sri Lanka and Philippines refers to the potential economic and financial impacts arising from the country's shift towards a low-carbon economy. This includes the introduction of stricter regulations and policies aimed at reducing greenhouse gas emissions and mitigating climate change. The transition risk in Sri Lanka encompasses challenges such as increased costs of compliance, changes in market demand and consumer preferences, technological advancements, and the need for significant investments in clean and sustainable technologies.

Business Risks and Responding to the Risks

Sri Lanka and Philippines

Our factories in Sri Lanka may experience increased costs due to the need to comply with stricter regulations and adopt low-carbon practices. This can include investments in new technologies, energy-efficient infrastructure, and sustainable supply chain practices. Additionally, businesses may face changes in market demand and consumer preferences as sustainability becomes a more prominent factor in purchasing decisions. Adapting to these changes and meeting evolving customer expectations will be crucial for maintaining competitiveness. However, there are also potential opportunities that can arise from the transition to a low-carbon economy, such as the development of new green products and services, access to green financing, and improved brand reputation for sustainability leadership. By proactively addressing the transition risk and seizing these opportunities, businesses can enhance their long-term resilience and position themselves for success in the evolving business landscape.

China

Transition risks in China include increasing costs of raw materials and production due to the implementation of carbon pricing or carbon taxes, changing regulations and policies related to environmental standards and emissions, shifts in consumer preferences towards sustainable and low-carbon products, and potential disruptions in the supply chain due to the adoption of cleaner technologies. These transition risks highlight the need for the garment factory to adapt and align its operations with evolving sustainability requirements and market demands to remain competitive and resilient in a changing business landscape. It is crucial for the garment factory to proactively manage these business impacts by implementing appropriate strategies and measures to mitigate risks and capitalize on emerging opportunities.

Metrics and Targets

We place significant emphasis on monitoring and disclosing our group's energy consumption and carbon emissions performance on an annual basis. Through regular tracking and reporting, we strive to maintain transparency and accountability regarding our environmental impact. Additionally, we have established a climate goal as part of our comprehensive 5-year plan. This goal serves as a roadmap for our efforts to mitigate our carbon footprint and contribute to a more sustainable future. By setting clear targets and monitoring our progress, we aim to continually improve our environmental performance and make meaningful strides towards achieving our long-term sustainability objectives.
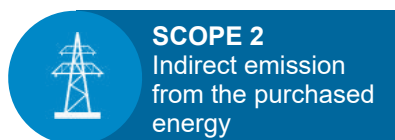
Climate Goal

Under the 2015 Paris Agreement, participating national governments committed to limiting global temperature increase to well-below 2°C and striving for a more ambitious target of 1.5^{o}C. The consequences of exceeding 1.5^{o}C include increasingly dangerous climate impacts and humanitarian crises such as drought, sea-level rise, flooding, extreme heat, and ecosystem collapse. As an important player in our value chain, Sterling Group has embraced the Science-Based Targets initiative (SBTi) guidance. This initiative supports companies across the apparel and footwear sector value chain in setting ambitious and science-based GHG emission reduction targets (SBTs). The SBTi is a collaborative effort among Carbon Disclosure Project, the United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF).

Its purpose is to empower companies to gain competitive advantages during the transition to a low-carbon economy. We firmly believe that meeting SBTs not only contributes to the well-being of our planet but also enhances business resilience and competitiveness. This, in turn, drives the transformation of our business practices and builds a strong reputation in the market.

Various methods exist for setting SBTs, differing in whether targets are calculated as a percentage reduction in absolute emissions or emissions intensity based on physical or economic metrics. At Sterling Group, we have adopted the absolute contraction approach to establish our emission reduction target. This method provides the most straightforward link to the well-below 2°C pathway. Our projected target until 2025 entails a minimum annual linear reduction of 2.5%. The top management fully supports this ambitious target, reflecting our unwavering commitment to addressing climate change as a critical issue.

To monitor progress and ensure collaboration with our factories, the SSC is responsible for overseeing the achievement of our targets. As of the end of fiscal 2022/23, we have successfully reduced absolute scope 1 and 2 greenhouse gas emissions by 29% compared to our 2019 baseline.

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

SCOPE 1
Direct emission from factory (eg. diesel)

SCOPE 2
Indirect emission from the purchased energy

In addition to the positive environmental impact, meeting SBTs brings several benefits to Sterling Group. It enhances our business resilience and competitiveness, positioning us as a leader in sustainability practices. Aligning with a low-carbon economy is vital for future-proofing our operations and capturing new market opportunities. As we continue our journey towards sustainable practices, we remain committed to the SBTi and our role in driving positive change. Sterling Group's achievements in reducing greenhouse gas emissions demonstrate our dedication to fulfilling our responsibilities and maintaining our reputation as a sustainable and forward-thinking company.
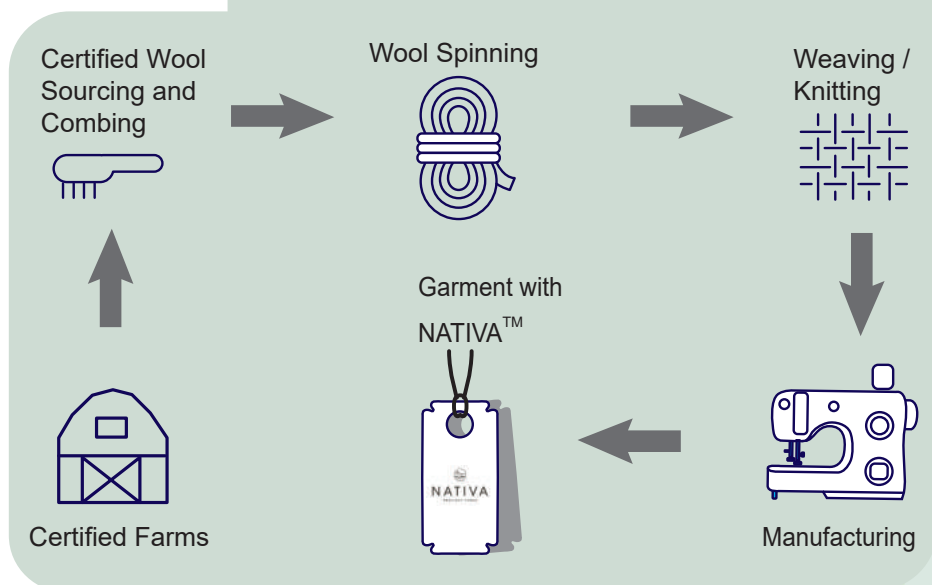
CO₂

2019/20

3,865 tonsCO₂e

2022/23

2,743 tonsCO₂e
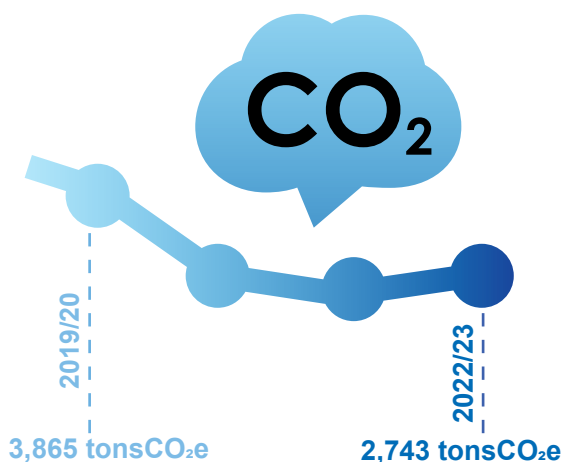
Environmental Management

The apparel supply chain is increasingly making a shift towards eco-fashion and promotes sustain- able 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.

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

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

Certified Wool Sourcing and Combing

Wool Spinning

Weaving / Knitting

Garment with NATIVA™

NATIVA

Certified Farms

Manufacturing

Higg Index

Sterling Group has fully embraced the Higg Index, a suite of tools developed by the Sustainable Apparel Coalition, to accurately measure and score our environmental and social performance. Specifically, we utilize the Facility Environmental Module (FEM) to assess the environmental performance of our factories and improve transparency for our customers. The adoption of the Higg Index and the use of its self-assessment questionnaire not only raise sustainability awareness but also help us identify areas for improvement across our facilities and drive continuous progress. By systematically capturing environmental data, the Higg Index strengthens our sustainability strategy and reinforces our commitment to sustainable practices in the apparel industry.

We also recognize the value of the Higg Index as an industry-wide assessment tool to evaluate the environmental performance of our supplier base. It serves as a catalyst for increasing awareness of environmental issues and provides a clear indicator of sustainability progress for our suppliers. Since 2020, we have actively collaborated with critical garment suppliers to engage with the Higg Facility Environmental Module (FEM), which has been instrumental in promoting the climate concept and sharing our vision throughout the supply chain. The Higg Index offers a standardized approach to capture environmental sustainability performance, providing comprehensive guidelines for subsequent analysis and the formulation of improvement plans. By leveraging the Higg Index, we not only assess our supplier's environmental practices but also drive positive change and support their sustainability journey.

Seven sections of FEM:
- Environmental Management System
- Energy and Greenhouse Gas Emissions
- Air Emissions
- Water Use
- Wastewater
- Waste Management
- Chemicals Management

Since 2021, we took a significant step towards ensuring the credibility and accuracy of our self-assessment by appointing third-party audit companies to conduct FEM verification. This verification process not only enhances the factory's understanding of environmental-related fields and regulations but also provides a crucial benefit of standardizing the methodology for capturing and collecting data. By implementing the Higg FEM program, we empower facilities within our supply chain, enabling them to drive measurable performance improvement through ongoing collaboration. This initiative strengthens the autonomy of our facilities and reinforces our commitment to continuous improvement and sustainability throughout the supply chain.

Energy Consumption & Greenhouse Gas Emission

Sterling Group places a strong emphasis on resource efficiency to minimize our environmental impact. We closely monitor the usage of purchased electricity, which serves as the primary power source for our production facilities, ensuring responsible consumption. Furthermore, our China factory utilizes natural gas for boilers, which is a cleaner energy alternative compared to other fossil fuels. Not only does natural gas produce less soot, but its production also has positive environmental benefits. Combustion of natural gas emits lower levels of carbon dioxide and achieves higher efficiency in terms of greenhouse gas emissions.
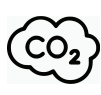
In line with our commitment to sustainability, we embrace a vision of satisfying the desires of every business partner while staying at the forefront of global trends. We have implemented an internal environmental policy that comprehensively addresses low emission and energy-saving measures within our operational activities. Through proper equipment maintenance, improvement of equipment designs and installations, and enhancing employee awareness of energy-saving habits, we actively strive to minimize energy usage. These efforts are an integral part of our dedication to responsible environmental practices, reflecting our commitment to meeting business needs while upholding sustainability standards.

Energy Type	Electricity	Natural Gas	Diesel	Petrol	Refrigerant*
Consumption	3,291 MWh	3,606 m^3	141,070 liter	7,988 liter	25.2kg
Intensity (per garment)	2.2 kWh	0.002 m^3	0.09 liter	0.01 liter	

Greenhouse Gas ("GHG") Emission	Unit	Emission
GHG Emission (Scope 1)	tons CO$_2$e	446
GHG Emission (Scope 2)	tons CO$_2$e	2,298
Total GHG Emission	tons CO$_2$e	2,744
GHG Emission Intensity (per garment)	kgCO$_2$e/pc	1.84

Illustrations on environmental data:

1) Greenhouse gas emission (scope 1) mainly comes from the consumption of diesel, natural gas and petrol. The energy consumption coefficient refers to the emission factors of IPCC2006 Guideline for National Greenhouse Gas Inventories.

2,744 tons CO$_2$e
Total Carbon Footprint

1.84 kgCO$_2$e/garment
Carbon Intensity

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)" electricity consumption in China is referred to, whereas Sri Lanka electricity grid 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, R410, R407C.

Water Consumption

The Group's operations do not involve fabric processing or washing, resulting in minimal water usage in production. Our primary water consumption is for domestic purposes. We prioritize ongoing education for our employees to promote water conservation practices, and we ensure regular maintenance of our water systems and equipment to prevent any leaks.

45,103 m³
Total Water Consumption

0.03 m³ / garment
Water Intensity

Use of Materials

As a garment manufacturing company, Sterling Group acknowledges that the use of packaging materials is necessary for our final packing and delivery processes to ensure the reliability of shipments. The packaging materials we utilize include corrugated carton boxes, tissue paper, plastic bags, hangers, and cardboards. It is important to note that the specifications for most packaging designs are determined by our customers, leaving us with limited control over the choice of materials used. Our priority is to comply with our customers' requirements while striving to minimize over-ordering and improve material handling practices to reduce wastage.

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.

HOW FAIR TRADE APPAREL WORKS

YOUR PURCHASE FAIR TRADE CERTIFIED CLOTHS

FUND GOES DIRECTLY INTO FAIR TRADE ACCOUNT

WORKERS SPEND FAIR TRADE FUND TO IMPROVE THEIR LIVELIHOOD

Fair Trade Committee plays an important role to manage the Fair Trade Premium for the benefit of all workers. The committee's task involves deliberation on workers' needs through comprehensive need assessment that reflects workers' suggestions. So the composition of the Fair Trade committee is derived from every department to ensure diversity, and all of the committee members are from worker's level. In response to the economic hardship in Sri Lanka, there were two projects the Fair Trade Committee launched this year. The goal of the projects aims to be directly beneficial to workers, alleviate the inflation pressure and improve the living conditions in a short time.

Sterling Group fully supports Fair Trade because we believe Fair Trade is 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

At Sterling Group, we prioritize the well-being of our employees through a strong focus on health and safety. Our primary goal is to maintain high standards of productivity and quality assurance while creating a safe working environment that protects our workers from occupational hazards and injuries. We recognize the value of our employees and strive to foster a sense of appreciation and high morale among them.

To achieve these objectives, we provide comprehensive safety training to our workers, equipping them with the necessary knowledge and skills to perform their job tasks safely. Additionally, we ensure that their workplaces are furnished with top-quality safety equipment. Our ultimate aim is to achieve zero accidents in our facilities, safeguarding our employees who are the most valuable assets of our company.

To effectively manage health and safety issues, each of our factories has qualified officers who are dedicated to overseeing and maintaining the well-being of our workforce. They regularly conduct on-site assessments to evaluate the safety of the workplace, as well as the proper functioning of equipment and machinery. Through these measures, we ensure that our safety policies adequately protect our employees and promote a secure working environment throughout our organization.

Training and Development

We recognize that solid technical skills and the production of high-quality products are crucial factors for our success. To ensure sustainability and drive continuous improvement, the Sterling Group is committed to investing in enhancing employee performance, increasing motivation and productivity, and fostering the development of new production skills.

We achieve these goals through a variety of methods, including on-the-job training and external training programs. By providing these learning opportunities, we empower our employees to acquire new knowledge and upgrade their existing skills. This investment in their growth is a cornerstone of our commitment to excellence.

More than **4,000**
Total Training Hours

Our comprehensive training programs cover a wide range of topics, including health and safety, fire safety, chemical handling, ergonomic practices, WRAP (Worldwide Responsible Accredited Production), and Fair Trade awareness. These initiatives ensure that our employees are equipped with the necessary knowledge and skills to operate in a safe and responsible manner while also promoting ethical practices.

During the reporting period, we proudly provided over 4,000 training hours to all of our employees. This significant investment demonstrates our commitment to fostering a culture of continuous learning and development, ultimately contributing to the overall success of our organization.

Additionally, our social management system places great importance on fostering an environment free from discrimination. We strictly prohibit any discrimination based on race, age, gender, or sexual orientation within our organization. Furthermore, we are dedicated to ensuring that wages, benefits, and working hours are in strict compliance with local labor laws. During the reporting period, we are proud to state that we had no records of non-compliance with relevant laws and regulations, underscoring our commitment to responsible and ethical practices.

WRAP Accreditation

The Worldwide Responsible Accredited Production (WRAP) is a distinguished independent and non-profit organization committed to promoting and maintaining corporate social responsibility standards in factories worldwide. We are proud to announce that our Sri Lanka factories, Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd., have been certified under the prestigious WRAP program for several years and have attained the esteemed Gold rating.

The Gold rating signifies our unwavering dedication to complying with WRAP's 12 fundamental principles, which are based on widely accepted international workplace regulations. These principles encompass various aspects, including human resources management, health and safety, environmental practices, and legal compliance, including import/export, customs compliance, and security standards. Our compliance with these principles reflects our commitment to upholding the highest standards of ethical and responsible manufacturing.

Labour Practice

At our organization, we are committed to upholding a strong code of conduct and corporate values that empower our employees to actively promote and protect human rights, including freedom of association, while denouncing any form of child or forced labor. We have implemented a comprehensive hiring system, with a key focus on preventing child labor. This includes raising awareness and advocating within our group, equipping decision-makers with the knowledge and tools necessary to effectively combat child and forced labor, primarily through education initiatives.

To ensure our suppliers align with our vision for responsible engagement, we have implemented a social compliance program that covers all critical suppliers. This program includes on-site social compliance audits to assess and verify adherence to our standards. For more details on our supplier engagement, please refer to the "Supply Chain Management" section.

SMETA

The Sedex Members Ethical Trade Audit (SMETA) is a highly regarded ethical audit format that encompasses industry-leading practices in the realm of corporate social responsibility. It offers a comprehensive assessment of labor conditions, occupational safety, environmental standards, and ethical business practices. We are pleased to announce that our China factory, Zhi Wei (Guangzhou) Garment Manufacturing Co., has actively participated in SMETA by partnering with reputable third-party audit firms.

Our collaboration with SMETA reflects our commitment to driving continuous improvements in ethical and responsible business practices. By engaging in SMETA audits, we aim to thoroughly evaluate and enhance various aspects of our operations, including labor conditions, occupational safety, environmental practices, and ethical conduct.

We understand the importance of maintaining high standards in these areas and recognize the impact our actions have on workers, the environment, and the broader business community. Through our participation in SMETA, we strive to uphold these standards and ensure that our China factory operates in line with the best practices in corporate social responsibility.

Product Responsibility

Product quality and safety are of paramount importance to the Sterling Group. We devote significant effort to not only meet but exceed our customers' expectations in these areas. We take product safety seriously, and the majority of our raw materials are nominated by our customers. Each material and product undergoes a stringent compliance process and is subjected to testing according to specified specifications.

To ensure consistent product quality, we have established a dedicated Quality Assurance team. This team oversees the entire production process, starting from the prototype stage for risk assessment to the selection of materials and final garment assembly. We maintain strict monitoring of every production step through our internal quality control system. Our ultimate objective is to deliver products and services that are of excellent quality and safety to our customers.

Respecting and safeguarding our customers' intellectual property is a fundamental principle for us. In our production facilities, we have implemented systematic measures and handling procedures to maintain strict control over customers' licensed materials. These measures include secure storage of licensed materials and accountability for issued materials at the end of each shift.

Regarding personal and trade information shared by our customers, we exercise careful control over access to such information. We ensure that individuals who have access to this information understand the importance of confidentiality and privacy. Unauthorized disclosure of such information would be a breach of our company's employment contract.

We have had no product recall cases, complaints, or non-compliance issues related to product responsibility and data privacy during the reporting periods. This highlights our unwavering commitment to maintaining the highest standards of product safety and customer data protection.

Green Procurement and Chemical Management

At Sterling Group, we recognize the detrimental impact that hazardous substances in garment products can have on both our customers and the environment. As a result, we prioritize the sourcing and procurement of fabrics and trims with great care and importance. We are fully aware that the textile industry relies heavily on the use of chemicals during manufacturing, which can pose risks to local water sources and the environment as a whole.

To mitigate these environmental concerns, we have adopted a stringent green procurement standard known as the Restricted Substances List (RSL) for fabrics and trims procurement. Since 2015, we have formulated our RSL policy and requirements, which align with the guidelines set by AFIRM (Apparel and Footwear International RSL Management) for restricted substances in consumer products. This policy clearly communicates our expectations to materials suppliers regarding the use of chemicals. It identifies a list of restricted chemicals that we aim to minimize in our final garments to reduce their environmental impact.

To ensure compliance, all our suppliers are required to adhere to our RSL requirements as stated in our procurement policy. In cases of non-compliance, we seek alternative sources for materials. The entire procurement process is managed by our dedicated purchasing department, which reports directly to the leadership team.

Through these measures, we strive to minimize the presence of hazardous substances in our garments, mitigate environmental impacts, and uphold our dedication to sustainable and eco-friendly manufacturing processes.
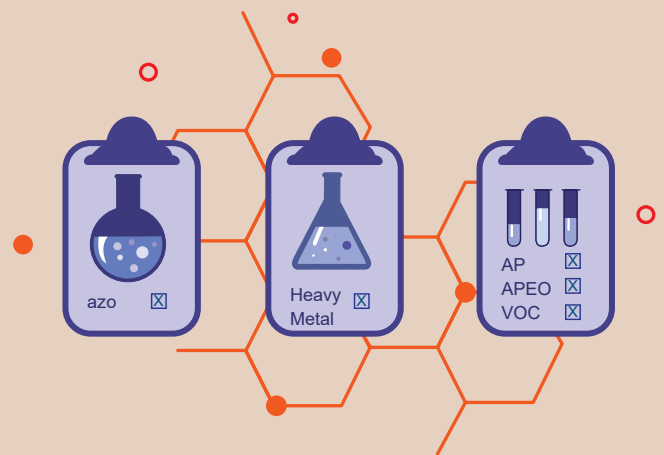
Supply Chain Management

We acknowledge that effective supplier management is a crucial aspect of our business success, especially considering the increasing geographic diversification and the growing number of suppliers we engage with. To safeguard against potential disruptions within the supply chain that could impact our financial performance and reputation, it is imperative for us to adopt a strategic approach and allocate additional resources to our critical suppliers. To define the scope of critical suppliers, we consider their significant impact on product quality. Issues arising from these suppliers have the potential to result in product recalls and harm to our customers. We primarily focus on suppliers who make substantial contributions to the completion of our final products. These suppliers require closer attention and monitoring to ensure that social and environmental risks are effectively controlled and managed.

At Sterling Group, we are committed to engaging with our suppliers in a fair and lawful manner. We collaborate closely with them to ensure the respect of human rights, the promotion of decent working conditions, and the advancement of sustainability practices. To manage social and environmental risks across our supply chain, we employ a grading system that serves as a leading indicator for supply chain analysis. This system also acts as a management tool to evaluate the overall performance of our supply chain.

Our supplier engagement process includes various initiatives:

- Implementation of the Sterling Group Responsible Sourcing Policy.

- Supplier self-assessment to evaluate their adherence to our requirements.

- On-site social compliance audits and gap analysis.

- Supplier capacity building and educational programs.

- Remediation of any identified non-conformances.

A designated Compliance team is responsible for conducting supplier engagement activities. They communicate our requirements to suppliers and perform on-site audits to ensure compliance. Our goal is to provide assurance to our customers and key stakeholders that our products are produced ethically and sustainably. The Compliance function reports directly to the senior management of the Group, ensuring transparency and open communication, including with the board of directors.
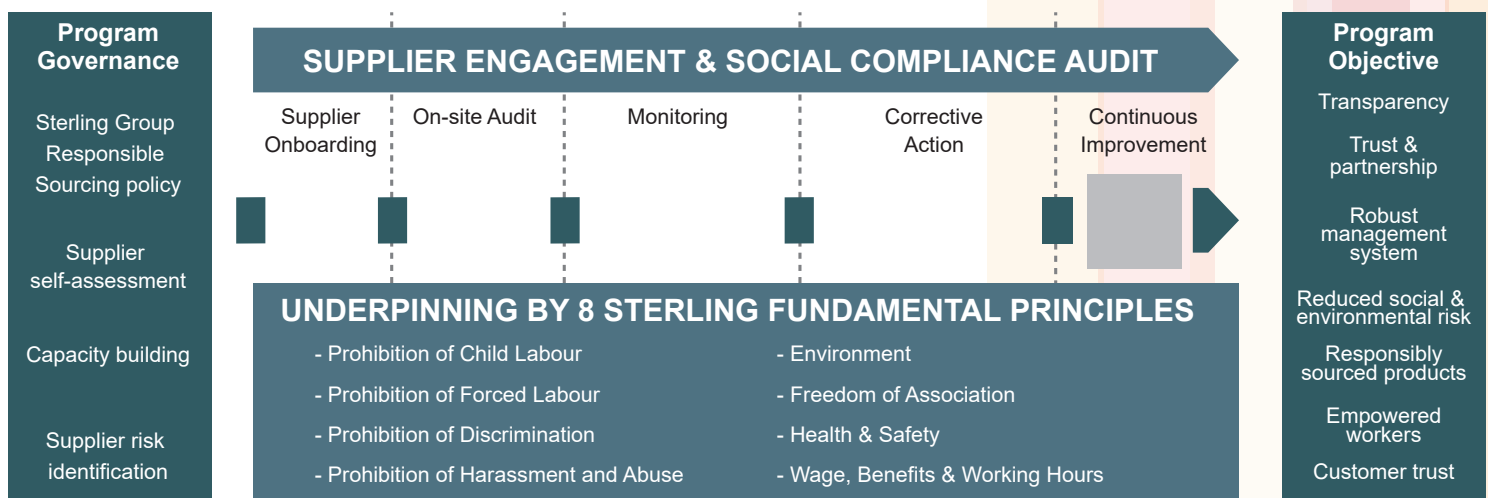

Sterling Responsible Sourcing System

Regulations　Rules　Transparency　Standards　Law　Policies　Requirements

Audit and Remediation

In order to uphold compliance with the Sterling Group Responsible Sourcing Policy, we have implemented a structured approach for monitoring our garment suppliers. This includes requesting all suppliers to undergo an annual self-assessment and on-site social compliance audit. By following this sequence of supplier engagement actions, we aim to enhance visibility into our employment practices, proactively monitor compliance with our responsible sourcing policy, identify ethical sourcing risks, address any non-conformances, and promote supplier capacity development.

Non-conformances identified during audits are evaluated and categorized as critical, major, or minor based on their severity. Our designated audit checklist covers key areas such as worker welfare, labor rights, health and safety, and environmental risks. Each garment supplier is assigned a risk level score based on the assessment, enabling us to establish long-term business relationships and collaborate with them to improve working conditions within a reasonable timeframe.

Any identified non-conformances are required to be remediated within appropriate timeframes, depending on their nature and severity. We work closely with suppliers to develop comprehensive corrective action plans, followed by subsequent actions including desktop reviews or on-site verifications to ensure compliance.

Furthermore, at Sterling Group, we strictly adhere to a Zero Tolerance Policy for egregious issues, including but not limited to child labor, forced labor, discrimination, harassment and abuse, and imminent health and safety threats.

Program Governance	SUPPLIER ENGAGEMENT & SOCIAL COMPLIANCE AUDIT					Program Objective
Sterling Group Responsible Sourcing policy	Supplier Onboarding	On-site Audit	Monitoring	Corrective Action	Continuous Improvement	Transparency
Supplier self-assessment						Trust & partnership
Capacity building	UNDERPINNING BY 8 STERLING FUNDAMENTAL PRINCIPLES					Robust management system
Supplier risk identification	- Prohibition of Child Labour		- Environment			Reduced social & environmental risk
	- Prohibition of Forced Labour		- Freedom of Association			Responsibly sourced products
	- Prohibition of Discrimination		- Health & Safety			Empowered workers
	- Prohibition of Harassment and Abuse		- Wage, Benefits & Working Hours			Customer trust

Environmental and Social Risk along Supply Chain

As a prominent OEM manufacturer in the local apparel industry, Sterling Group serves as a supplier to several esteemed and luxury brands in the U.S.. Given the significance of supply chain management, we understand the criticality of effectively overseeing our partner factories and ensuring their ongoing qualification. In today's dynamic business landscape, we are exposed to a diverse range of risks that must be addressed in our supply chain operations. Recognizing the importance of sustainability management, we go beyond purely economic considerations and incorporate social and environmental risks into our assessments.

To achieve this objective, we have developed a robust Responsible Sourcing system based on Sterling's Code of Conduct. This system standardizes our requirements and establishes an internal assessment framework to evaluate the capabilities and performance of our suppliers. By assessing environmental and social risks within our value chain, we recognize that these risks can result in production delays, negative publicity, damage to our reputation, threats to operating licenses, and unforeseen expenditures. Our business practices and supply chain framework allow us to categorize three systematic risks in the below:

It is important to recognize that these impacts are interconnected, and environmental and social risks may have a more substantial effect on our value chain than commonly acknowledged. Indirect risks can often carry more significance than direct risks, leading to major consequences. By acknowledging and actively managing these risks, we strive to build a resilient and responsible supply chain that safeguards our operations, protects our reputation, and aligns with our sustainability objectives.

Financial Impacts

- Low productivity due to workplace accidents and lost work hours from worker injuries can result in increased costs associated with reduced output and potential disruptions to production schedules.
- Unexpected costs may arise from the need to meet regulatory compliance requirements or pay fines, impacting the overall financial performance of the company.
- Costs associated with remedying non-conformance or addressing issues that could affect employee health, such as implementing safety measures or providing medical assistance, can put a strain on financial resources.

Legal Impacts

- Non-compliance with environmental, sanitary, health, safety, and labor laws can lead to legal consequences, including fines or penalties imposed by regulatory authorities.
- In severe cases of non-compliance, there is a risk of regulators suspending operations, which can result in significant financial losses due to halted production and potential contractual obligations.

Reputational Impacts

- Poor company image resulting from environmental and social incidents can lead to a loss of sales, as customers may be deterred from purchasing products associated with a negative reputation.
- Deterioration of business relationships with buyers may occur if they perceive the company as not meeting sustainability or ethical standards, leading to potential contract cancellations or a loss of future business opportunities.
- A negative reputation can increase recruitment costs as potential employees may be less inclined to work for a company with a poor track record in social and environmental responsibility.

Local Community

The Sterling Group has established dedicated volunteer teams that actively engage in local community activities and extend assistance to the underprivileged and those in need. Our primary objective is to foster strong connections with the communities where we operate and make a positive and enduring impact on their social and economic advancement. To achieve this, we not only create employment opportunities but also offer support to vulnerable groups by providing essential groceries.

This year, our China team consistently visited families requiring assistance and generously donated groceries to alleviate their immediate needs. This initiative exemplifies our commitment to actively contribute to the well-being of the community and demonstrate our solidarity with those facing challenges. In addition, our China team takes pride in actively engaging in efforts to combat the challenges posed by the COVID-19 pandemic within our local community. As part of our commitment to community welfare, our factory management actively participated in voluntary COVID-19 testing initiatives.

During these testing campaigns, our dedicated management team volunteered their time and expertise to assist in conducting COVID-19 tests within the community. By lending a helping hand in this crucial area, we aimed to contribute to the overall well-being and safety of our community members. This involvement in COVID-19 testing not only reflects our commitment to community health but also highlights our responsibility as a corporate citizen. We firmly believe in the importance of collective efforts and solidarity during times of crisis, and our participation in this voluntary testing program demonstrates our dedication to supporting our local community in times of need.

Through these combined efforts, including the provision of groceries and active involvement in COVID-19 testing, we strive to strengthen our bond with the community and make a meaningful and positive impact on their lives. Our unwavering commitment to community welfare is an integral part of our broader sustainability initiatives and our dedication to social responsibility.

Code of Conduct and Anti-Corruption

Our Code of Conduct, Anti-Bribery Policy, and associated policies serve as comprehensive guidelines that outline the expectations, standards, and requirements for all employees at Sterling Group. These policies emphasize the importance of honesty, fairness, compliance with laws and company regulations, and the obligation to report any suspicions of breaches.

Our Anti-Bribery Policy specifically prohibits corruption and related misconduct. It provides internal staff and business associates with information and guidelines on how to identify and address incidents of bribery and corruption. Any violation of these policies by our employees is considered a serious misconduct that may result in disciplinary action, including termination of employment. Similarly, any breach by our business associates may lead to termination of contracts or potential legal action. It is worth noting that we have had no litigation or allegations of corruption during the reporting period.

At the management level, we have implemented authorization procedures to manage and address conflicts of interest that may arise from certain policies and procedures. These procedures ensure a system of checks and balances, with more rigorous protocols for higher-value transactions. Our management team remains committed to the thorough and effective implementation of the Company's Code of Conduct and anti-corruption measures.

These robust policies and procedures underscore our unwavering commitment to honesty, integrity, mutual respect, and the prevention of corruption. By adhering to these principles, we strive to create a business environment that promotes sustainable development and upholds the highest ethical standards.

Social Key Performance Indicators

WORKFORCE STRUCTURE			
B1.1	**Gender**	Male	339
		Female	1,029
	Age Group	Age under 30	331
		Age 30 - 40	352
		Age 41 - 50	511
		Age above 50	174
	Geographical Region	Sri Lanka	1,138
		China	230
	Total Workforce (full-time)		1,368

TURNOVER RATE OF EMPLOYEES			
B1.2	**Gender**	Male	19%
		Female	42%
	Age Group	Age under 30	65%
		Age 30 - 40	28%
		Age 41 - 50	25%
		Age above 50	19%
	Geographical Region	Sri Lanka	41%
		China	26%
	Total Turnover Rate		36%

HEALTH AND SAFETY		
B2.1	**Number of Work-related Fatallity**	0
B2.2	**Lost Day Due To Work Injury**	30

PERCENTAGE OF EMPLOYEES TRAINED			
B3.1	**Gender**	Male	25%
		Female	75%
	Category	Executive level	3%
		Administrative staff	16%
		Production team	81%
	Total Percentage of Employees Trained		100%

AVERAGE TRAINING HOURS OF EMPLOYEES			
B3.2	**Gender**	Male	4.4
		Female	2.8
	Category	Executive level	9.9
		Administrative staff	2.5
		Production team	3.1
	Total Average Training Hours of Employees		3.2

NUMBER OF CRITICAL SUPPLIERS BY GEOGRAPHICAL REGION			
B5.1	**No. of Suppliers by Geographical Region**	China	15
		Philippines	1

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