

Environmental, Social and Governance (ESG) Report 2023/24



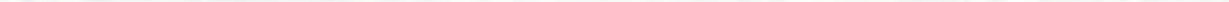
STERLING GROUP
— HOLDINGS LIMITED —
美臻集團控股有限公司



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About Sterling Group

Sterling Group Holdings Limited (referred to as "The Group" or "We") is listed on the Main Board of the Hong Kong Stock Exchange with the stock code 1825. 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.



**Quality, Passion and
Expertise are the ingredients.
Perfection is the outcome.**

About The Report

Welcome to the sixth Environmental, Social, and Governance ("ESG") report of Sterling Group Holdings Limited for the fiscal year 2023/2024 (1 Apr, 2023 to 31 Mar, 2024). 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. This report was prepared in compliance with the Environmental, Social and Governance ("ESG") Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and our climate-related disclosure makes reference to the framework of the Task Force on Climate-related Financial Disclosure ("TCFD").

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. The reporting boundary of this report covers all our three factories.

Sri Lanka

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

China

- Zhi Wei (Guangzhou) Garment Manufacturing Company Ltd.

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 infuse 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.



2.8M pcs
Garment Delivered



HKD 570 million
Turnover

US >99%
OTHERS <1%
Geographical Markets

Sustainability Governance

Sustainability Governance Structure

The group firmly recognizes ESG as a paramount and integral aspect that demands the attention of our board of directors. 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 Executive Directors are entrusted with the task of overseeing and addressing the Group's ESG-related risks and opportunities and ensure that appropriate and effective ESG risk management and internal control systems are in place.

The Sterling Sustainability Committee acts 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 and operations.

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 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 reported in a half-year basis and reviewed by the Board 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.



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 management 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.

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 incorporate sensibility about environmental and social responsibility issues 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 is at the heart of our business, guiding us to meet today's needs without compromising the ability of future generations to meet theirs. This holistic approach integrates three fundamental pillars: economic, environmental, and social considerations, collectively referred to as profits, planet, and people. At Sterling, we have cultivated a culture of sustainability among our employees, embedding it into our manufacturing and operational activities. Our strategy aims to achieve both financial success and environmental and social benefits in a synergistic manner.

Understanding that sustainability is multifaceted, we align our efforts with established practices and focus on key areas such as climate change, biodiversity conservation, and the fight against modern slavery, all of which are crucial elements of the United Nations Sustainable Development Goals ("SDGs"). Detailed illustrations of how our business activities align with the SDGs are provided in the following sections.

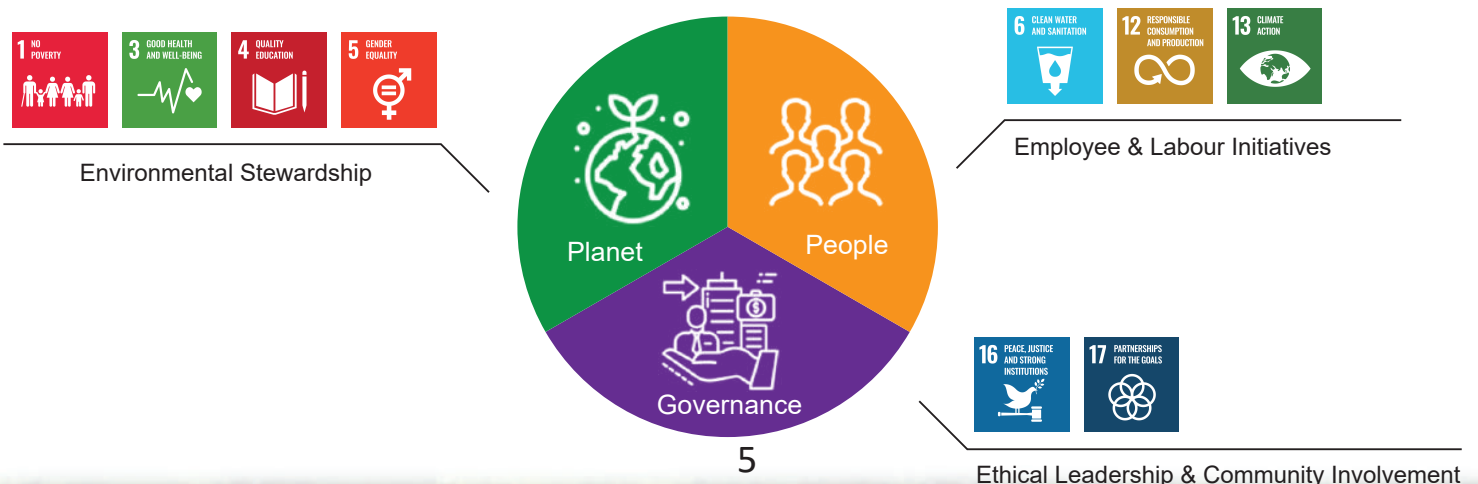
We firmly believe that sustainable industrialization is essential for achieving long-term and balanced development. By embracing sustainable practices, we unlock dynamic and competitive economic forces that generate employment, foster income growth, and enable efficient resource use. Significant efforts are dedicated to integrating technology, which plays a crucial role in driving manufacturing industries towards sustainable production patterns.

Our commitment to sustainability extends to people and society. We recognize the importance of social well-being and strive to create a positive impact on the communities where we operate. Through initiatives like the Fair Trade program, we prioritize the welfare and development of our employees, ensuring a safe, inclusive, and engaging workplace.






Sustainability Strategy

At Sterling, our sustainability strategy is clearly aligned with the United Nations Sustainable Development Goals ("SDGs"). Introduced in 2015 by the Division for Sustainable Development Goals in the United Nations Department of Economic and Social Affairs ("UNDESA"), the SDGs comprise 17 goals with 169 targets, serving as a global blueprint to achieve a better and more sustainable future. These goals address interconnected global challenges, including poverty, inequality, climate change, environmental degradation, peace, and justice.



Sustainability Initiatives

Topic	Initiatives	Highlights
 Environmental Stewardship	Energy Efficiency	Implementing energy-saving measures and improving the energy efficiency by technologies.
	Water Conservation	Promoting water-saving practices and maintaining equipment to prevent leaks.
	Sustainable Materials	Using NATIVA sustainable wool and other eco-friendly materials.
	Waste Reduction	Implementing green procurement policies and efficient material handling practices.
	Climate Goals	Setting and pursuing ambitious group climate targets for carbon mitigation.
 Employee & Labour Initiatives	Fair Trade Certification	Ensuring fair wages and benefits for workers in Sri Lanka, contributing to poverty eradication.
	Ethical Labour Practices	Providing fair treatment, safe working conditions, and freely chosen employment.
	Economic Growth	Fostering a supportive work environment to enhance productivity and economic development.
	Gender Equality Initiatives	Ensuring gender equality in the workplace with WRAP and SMETA accreditations.
	Safe Working Conditions	Ensuring health and safety training and compliance with the Restricted Substances List ("RSL").
	Employee Training Programs	Offering comprehensive training and development to enhance skills and career prospects.
 Ethical Leadership and Community Involvement	Anti-Corruption Policies	Enforcing a robust code of conduct and anti-corruption measures.
	Transparency and Accountability	Maintaining transparent reporting and stakeholder engagement.
	Collaborative Efforts	Engaging with stakeholders to promote sustainable practices and achieve the SDGs collectively.

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.

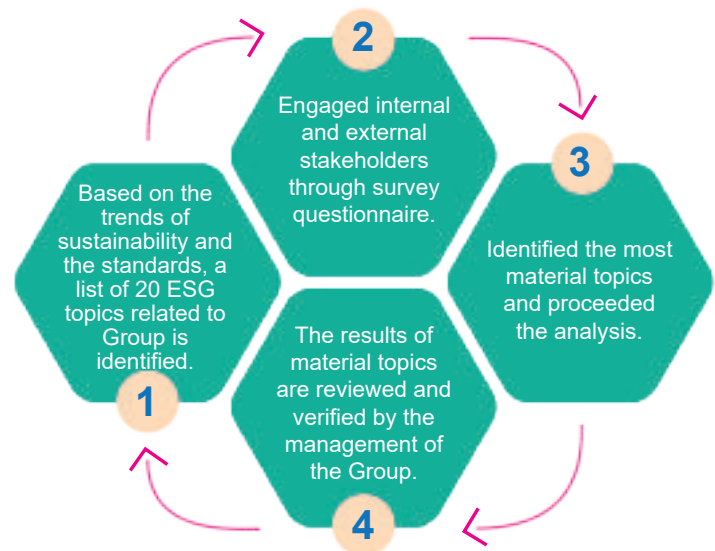


Sustainability Materiality Assessment

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, labour 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.





Governance

- 1 Business Performance
- 2 Risk Management
- 3 Law Compliance



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



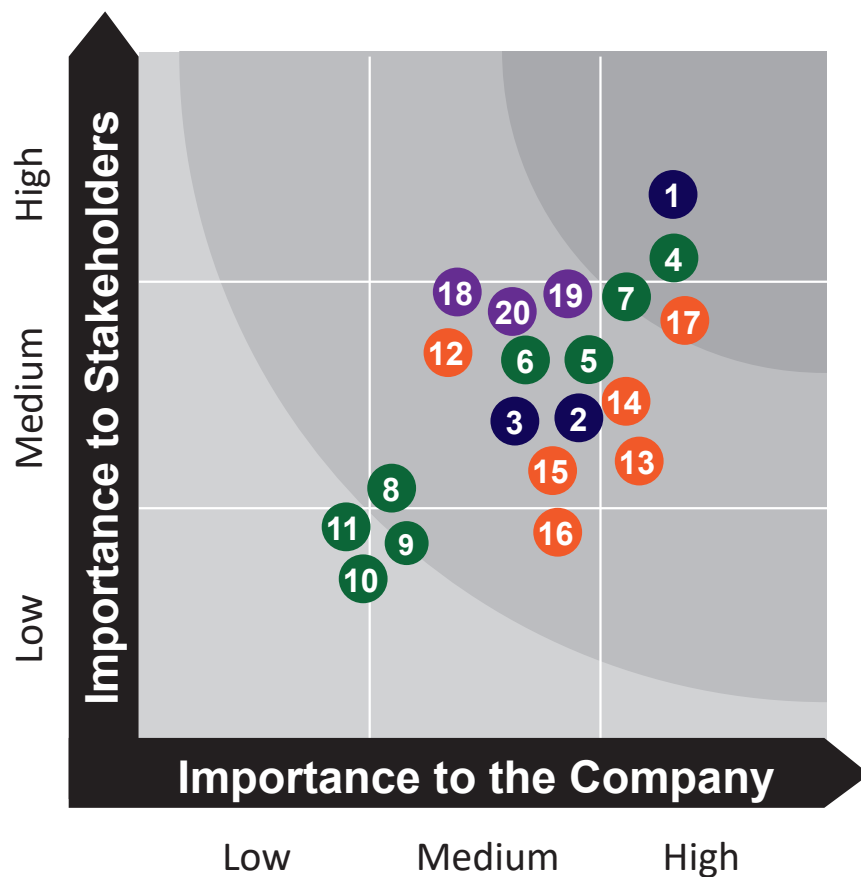
Environmental

- 4 Climate Change Risk and Adaption
- 5 Energy Consumption and Management
- 6 Water Management
- 7 Greenhouse Gas Emissions
- 8 Use of Materials
- 9 Waste Management
- 10 Transportation Management
- 11 Chemical Management



Social

- 18 Anti-corruption
- 19 Supplier Management
- 20 Community Engagement



PLANET

ENVIRONMENTAL STEWARDSHIP

Environmental Management

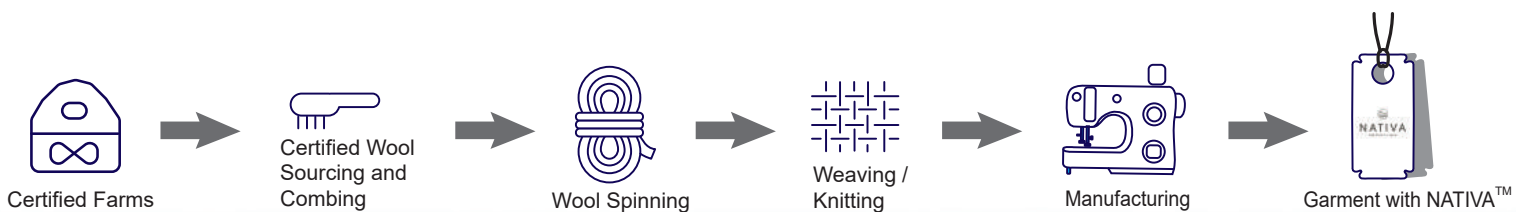
The apparel supply chain is increasingly making a shift towards eco-fashion and promotes sustainability through collaboration with the farm, fabric mills and garment manufacturers. Starting with incoming fabrics in garment manufacturing, we perform cut and sewn process, and actively engage with different 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.

At ZhiWei Garment Co., Ltd., we are committed to transparency and accountability in our environmental, social, and governance practices. As part of our dedication to corporate responsibility, we have registered our factory information to the Institute of Public & Environmental Affairs ("IPE") platform. We have consistently adhered to environmental regulations and best practices, and we are proud to declare that we have had no environmental violations reported.

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.
- Maintain indoor temperature at 24°C – 26°C in offices.
- Perform maintenance regularly to keep operating efficiency of air conditioning system.



Highlights of Carbon Mitigation Measures

In our manufacturing operations, energy consumption is a critical factor that directly impacts both operational efficiency and environmental sustainability. In 2024, we collaborated with our buyer for the Carbon Leadership Program (“CLP”) initiated by Apparel Impact Institute (“Aii”), Chiefway Katunayake (Pvt) Ltd. was subject to an initial assessment for the decarbonization opportunities by RESET Carbon. After conducting a comprehensive audit, we identified four primary areas that are significant contributors to our overall energy usage which have room for energy saving as well as carbon mitigation: lighting, boiler systems, HVAC systems, and compressed air systems. These areas collectively account for a substantial portion of our energy expenditure, making them key targets for improvement and optimization.

Area	Initiatives	Highlights
Lighting	<ul style="list-style-type: none">- Implemented a lights-off policy on the production floor- Installed timers and motion sensors in key areas- Conducted lighting audits and reduced pathway lighting	<ul style="list-style-type: none">- Significant reduction in energy wastage through automated control- Increased awareness and compliance with energy-saving practices- Optimized lighting distribution and efficiency
Boiler Systems	<ul style="list-style-type: none">- Conducted thermal imaging to identify heat loss- Installed high-quality insulation on steam lines- Implemented regular inspection and maintenance programs	<ul style="list-style-type: none">- Reduced energy loss and increased boiler efficiency- Improved insulation leading to significant energy savings- Enhanced monitoring and maintenance ensuring optimal performance
HVAC Systems	<ul style="list-style-type: none">- Reduced the number of stand-alone AC units - Optimized the use of central AC units- Regularly monitored indoor temperature and humidity	<ul style="list-style-type: none">- Decreased energy consumption while maintaining indoor comfort- Improved efficiency of HVAC systems- Better control and monitoring of indoor environmental conditions
Compressed Air Systems	<ul style="list-style-type: none">- Conducted regular inspections for air leaks- Performed pressure drop tests- Sealed leaks promptly and optimized system design	<ul style="list-style-type: none">- Significant reduction in air leakages from 40%- Enhanced efficiency of compressed air systems- Regular maintenance ensuring sustained energy savings and improved system reliability

Climate Goal

Sterling Group recognizes the importance of addressing climate change and its potential consequences. In alignment with the 2015 Paris Agreement, we have set ambitious emission reduction targets and it is supported wholeheartedly by our top management, reflecting our unwavering commitment to combating climate change.

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



SCOPE 1
Direct emission from factory (e.g. diesel)

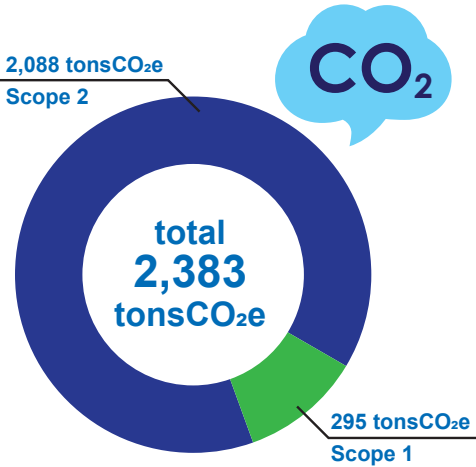


SCOPE 2
Indirect emission from the purchased energy

The Sterling Sustainability Committee (SSC) plays a crucial role in overseeing the achievement of our emission reduction targets and ensuring collaboration with our factories. As of the end of fiscal year 2023/24, we have successfully reduced absolute scope 1 and 2 greenhouse gas emissions by an impressive 38% compared to our 2019 baseline.

Meeting these emission reduction targets brings numerous benefits to Sterling Group. It enhances our business resilience and competitiveness, positioning us as a leader in sustainable practices. By aligning with a low-carbon economy, we future-proof our operations and seize new market opportunities.

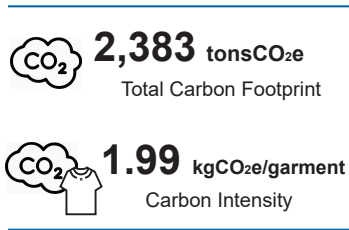
Our achievements in reducing greenhouse gas emissions demonstrate our dedication to fulfilling our responsibilities as a sustainable and forward-thinking company. We firmly believe that by addressing climate change through ambitious emission reduction targets, we contribute not only to the well-being of our planet but also to the enhancement of our business reputation and competitiveness.



Note:
The emission reduction targets have reference the Apparel and Footwear Sector Science-based Targets Guidance of SBTi.

Energy Management

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. 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 Consumption

Direct Energy	936 MWh
Purchased Electricity	3,013 MWh

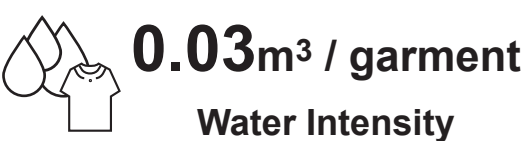
Greenhouse Gas Emissions

Scope 1	295 tonsCO ₂ e
Scope 2	2,088 tonsCO ₂ e

- Notes:
- Scope 1 emissions mainly come from the consumption of diesel, natural gas and petrol. The energy consumption coefficient refers to the emission factors of the IPCC2006 Guideline for National Greenhouse Gas Inventories.
 - Scope 2 emissions are purchased electricity. The GHG emission factors are derived from Climate Transparency (2019 Report) and the Sri Lanka Sustainable Energy Authority.
 - Direct energy includes diesel, petrol and natural gas.
 - The kWh value of direct energy is calculated with the conversion factors of calorific values.

Water Management

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.



Use of Materials

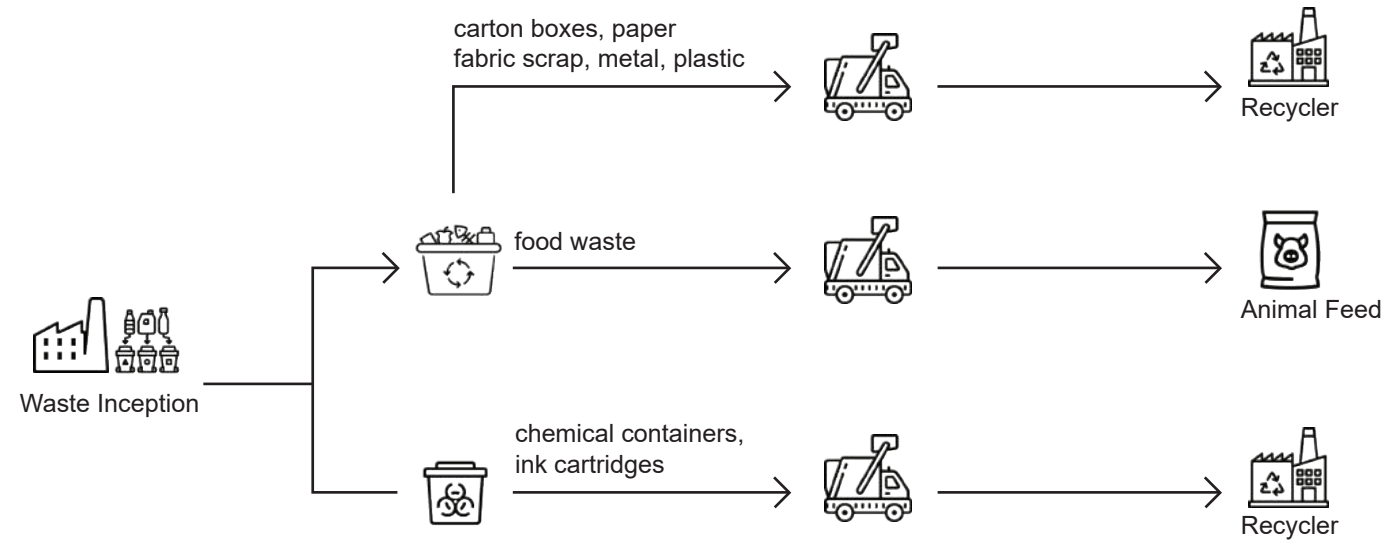
As a garment manufacturing company, Sterling Group acknowledges that the use of packaging materials is necessary for our final packing and delivery processes to ensure the reliability of shipments. The major packaging material we utilize is carton box. It is important to note that the specifications 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. The total carton box consumption is 38 tonnes.

Waste Management

At Sterling Group, we prioritize responsible waste management practices as part of our commitment to sustainability. In the garment manufacturing operations, we generate various types of waste, which we diligently manage to minimize the environmental impact. Our non-hazardous waste primarily consists of fabric scraps, carton boxes, and paper waste. We have established recycling system through third parties to divert these materials from landfills. In our efforts to reduce waste across our facilities, we also address other non-hazardous waste streams, including food waste. Through waste segregation, education, and partnerships with waste management providers, we strive to optimize resource utilization and minimize waste generation.

Furthermore, we adhere to strict protocols to safely manage hazardous waste, such as chemical containers and ink cartridges, ensuring their proper disposal and compliance with applicable regulations. By continuously monitoring our waste management practices and exploring innovative solutions, we are committed to minimizing waste and promoting a more sustainable future.

Non-hazardous waste	
Fabric scraps, carton boxes and paper	197 tonnes
Others (food waste, metal, plastic)	132 tonnes
Hazardous waste	
Chemical containers, ink cartridges	1 tonne



Higg Index

At Sterling Group, we fully embrace the Higg Index, a robust tool developed by the Sustainable Apparel Coalition. We utilize the Facility Environmental Module ("FEM") to comprehensively assess the environmental performance of our factories. The Higg Index enables us to measure and score key metrics across various areas, including environmental management systems, energy and greenhouse gas emissions, air emissions, water use, wastewater, waste management, and chemicals management. By leveraging the Higg Index and its self-assessment questionnaire, we actively raise sustainability awareness and drive continuous improvement across our facilities. The tool allows us to benchmark our performance, identify areas for enhancement, and set targets to ensure our operations align with sustainable practices in the apparel industry. To ensure the credibility and accuracy of our self-assessment, we have taken the significant step of appointing third-party audit companies to conduct FEM verification. This verification process enhances our factories' understanding of environmental regulations and ensures consistent and standardized data collection methodologies. By implementing the Higg FEM program, we empower our facilities, reinforce our commitment to continuous improvement, and foster sustainability throughout our supply chain.



TCFD Disclosures

Governance

The governance of climate-related risks and opportunities at Sterling Group is a multi-tiered process involving both the Board of Directors and senior management. The Board of Directors holds the ultimate responsibility for overseeing climate-related issues, ensuring that climate-related goals are integrated into the company's overall strategy. The Board regularly reviews and monitors progress on these goals, aligning them with the broader business strategy. Senior management, through the Sterling Sustainability Committee ("SSC"), plays a crucial role in implementing climate-related initiatives. The SSC, composed of cross-functional teams, integrates climate considerations into daily operations, ensuring that climate-related risks and opportunities are managed effectively across the organization.

Strategy

Sterling Group identifies climate-related risks and opportunities through continuous monitoring and stakeholder engagement. These risks and opportunities are assessed in terms of their potential impacts on the company's operations over the short, medium, and long term. Climate-related risks are categorized into physical risks (both acute and chronic) and transition risks (policy and legal, technological, market, and reputational).

Risk Management

Sterling Group's risk management framework includes comprehensive processes to identify, assess, and manage climate-related risks. Physical risks, both acute and chronic, and transition risks are systematically addressed to ensure the company's resilience.

Physical risks include event-driven risks such as typhoons, floods, and wildfires, as well as long-term shifts in climate patterns like rising temperatures and sea-level rise. Acute physical risks can lead to asset damage, supply chain disruptions, and increased insurance costs. To mitigate these risks, Sterling Group invests in resilient infrastructure and develops recovery plans. Chronic physical risks, such as increased operational costs due to higher temperatures and resource availability issues, are managed through energy efficiency measures, water management practices, and employee health and safety programs.

Transition risks arise from the shift towards a low-carbon economy. These include policy and legal risks associated with changes in regulations aimed at reducing carbon emissions, technological risks related to the adoption of new low-carbon technologies, market risks due to shifts in consumer demand towards sustainable products, and reputational risks.

ational risks linked to stakeholder perceptions of the company's sustainability practices. Sterling Group mitigates policy and legal risks by proactively monitoring regulatory developments, investing in compliance measures, and engaging in policy advocacy. Technological risks are managed through significant investment in research and development, implementing new technologies in phases. Market risks are addressed by conducting market research, innovating sustainable products, and managing the company's reputation through transparent sustainability reporting and active stakeholder engagement. Reputational risks are mitigated through comprehensive corporate social responsibility programs that demonstrate Sterling Group's commitment to ethical and sustainable business practices.

Metrics and Targets

Sterling Group uses various metrics to track and report on climate-related risks and opportunities. These metrics are aligned with global standards and are regularly reviewed to ensure they meet stakeholder expectations. Key metrics include greenhouse gas (GHG) emissions, energy consumption, water usage, and waste management. For instance, the company measures Scope 1 and 2 GHG emissions and reports them annually. Energy consumption metrics focus on total energy use and efficiency improvements, while water usage metrics track total water consumption and conservation measures. Waste management metrics include the amount of waste generated.

Sterling Group has set ambitious targets to reduce its environmental impact. These targets include a 15% reduction in Scope 1 and 2 GHG emissions by 2025 from a 2019 baseline. Performance against these targets is tracked through regular internal reviews, ensuring transparency and accountability.

Risk Type	Climate Risks	Potential Financial Impacts on Sterling Group	Mitigation Strategies
Physical Risks	Acute		
	Event-driven risks such as typhoons, floods, and wildfires. Our facilities in Sri Lanka and outsourced factories in the Philippines are highly susceptible to the impact of flooding and typhoon.	<ul style="list-style-type: none"> - Damage to facilities and assets - Supply chain disruptions 	<ul style="list-style-type: none"> - Infrastructure resilience - Recovery plans
	Chronic		
	Long-term shifts such as rising temperatures and sea-level rise.	<ul style="list-style-type: none"> - Increased operational costs for HVAC system - Resource availability issues - Health and safety risks 	<ul style="list-style-type: none"> - Energy efficiency measures - Water management practices - Employee health and safety programs
Transition Risks	Policy and Legal		
	Changes in regulations aimed at reducing carbon emissions.	<ul style="list-style-type: none"> - Regulatory compliance costs - Fines and penalties - Operational changes 	<ul style="list-style-type: none"> - Proactive compliance measures - Policy advocacy - Sustainability investments
	Technological		
	Adoption of new low-carbon technologies.	<ul style="list-style-type: none"> - Technology obsolescence - High implementation costs - Competitive disadvantage 	<ul style="list-style-type: none"> - Adoption of new technology - Phased technology implementation
	Market		
Transition Risks	Shifts in market demand towards sustainable products.	<ul style="list-style-type: none"> - Decreased demand for high-carbon products - Reputational damage - Reduced market share 	<ul style="list-style-type: none"> - Market research - Low-carbon production - Reputation management
	Reputational		
	Stakeholder perception of the company's sustainability practices.	<ul style="list-style-type: none"> - Brand value erosion - Loss of investor confidence - Employee morale issues 	<ul style="list-style-type: none"> - Transparent reporting - Stakeholder engagement - Responsible scouring program

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 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 not had any product recalls for safety and health reasons, and we have not received any complaints related to our products and services. Additionally, there have been no instances of non-compliance regarding intellectual property rights, product responsibility, or data privacy during the reporting periods. These outcomes reflect our commitment to delivering high-quality, safe and responsible products while upholding the highest standards of integrity.

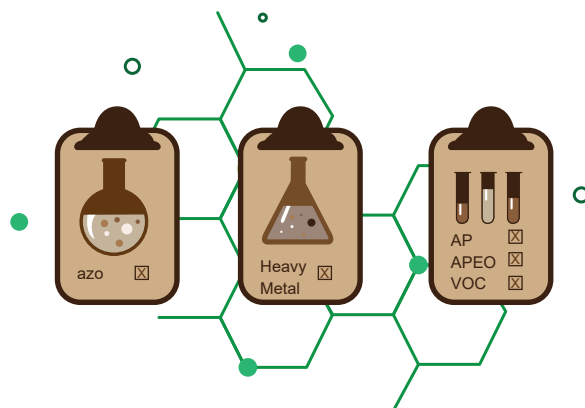
Green Procurement and Chemical Management

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. 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.





Labour Practices

At Sterling Group, we are committed to upholding a strong code of conduct and corporate values that prioritize the promotion and protection of human rights. We actively denounce any form of child or forced labour and have implemented a comprehensive hiring system to prevent such practices. Our focus includes raising awareness, advocating within our organization, and providing education initiatives to equip decision-makers with the knowledge and tools necessary to combat child and forced labour effectively.

To ensure responsible engagement throughout our supply chain, we have implemented a responsible sourcing program that covers critical suppliers. This program involves conducting on-site social compliance audits to assess and verify adherence to our standards. Our commitment extends to fostering an environment free from discrimination within our organization. We strictly prohibit any form of discrimination based on factors such as race, age, gender, or sexual orientation.

Additionally, we prioritize compliance with local labour laws regarding wages, benefits, and working hours. We are proud to state that during the reporting period, we had no records of non-compliance with relevant laws and regulations. This underscores our dedication to responsible and ethical labour practices.

Workforce Structure

In order to provide stakeholders with a comprehensive understanding of our organization's workforce, Sterling Group is pleased to present the section on workforce structure. We believe that transparency and insight into the composition of our workforce is crucial for fostering an inclusive and diverse environment.

By Gender

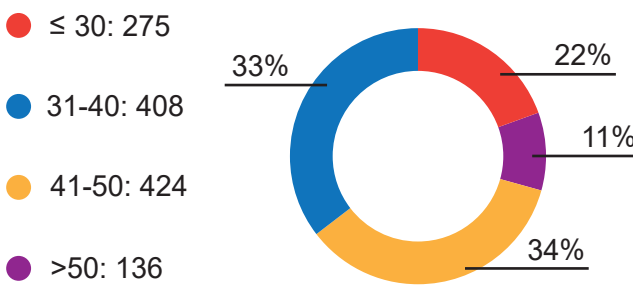


Note:
The figures presented in this section are derived at the end of the reporting period.

By Region



By Age Group



Workforce Turnover Rate

This section presents a comprehensive analysis of our turnover rate, which is the percentage of employees who leave our organization over the reporting period. By examining turnover within specified categories, it provides deeper insights into the dynamics of our workforce and the areas that may require additional attention. The total turnover rate of the employees is 35%.

By Region

Sri Lanka	34%
China	42%

By Gender

female	39%
male	22%

By Age Group

≤ 30	61%
31-40	31%
41-50	23%
>50	32%

Note:
The turnover rate of specified categories is based on the aggregated data divided by the average number of employees in specified categories.

Health and Safety Management

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. We had no work-related fatalities occur in each of the past three years including the reporting year, and the lost day due to work injury was zero.

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.

Note:
The lost days due to work injury are defined as the number of occupational injuries resulting in hospitalization.

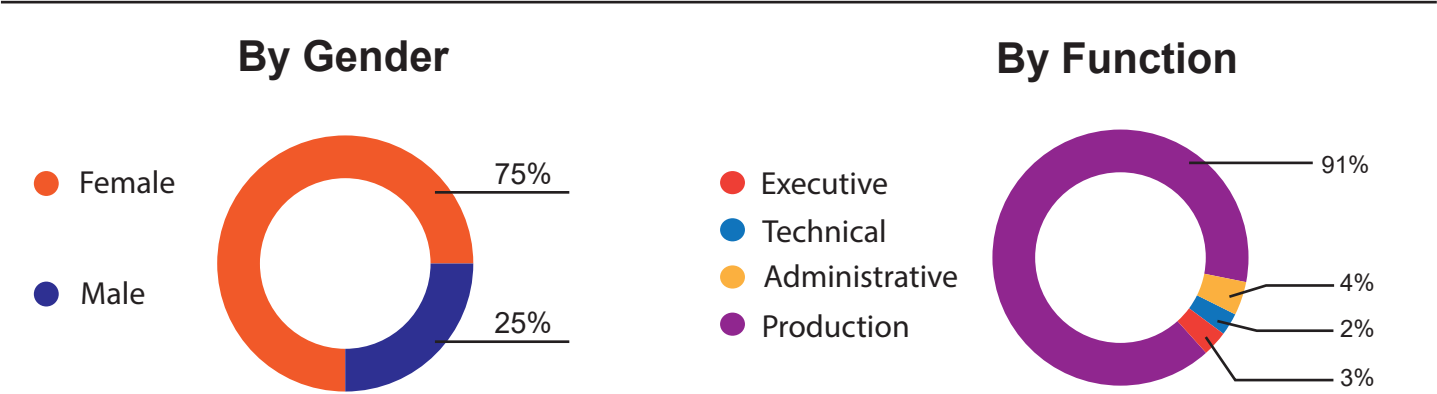
Training and Development

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.



Percentage of Employees Trained



Average Training Hours

By Gender		By Function	
female	3.42 hours	Executive	1.79 hours
male	2.35 hours	Technical	1.13 hours
		Administrative	2.42 hours
		Production	3.26 hours

Supply Chain Management

Supply Chain Management Strategy

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.

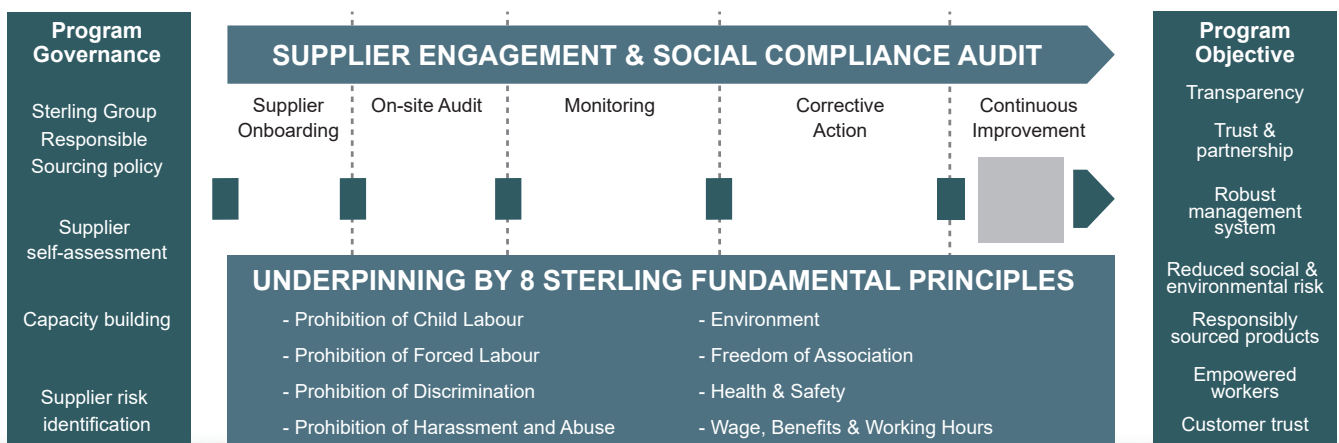
A designated Compliance team is responsible for conducting supplier engagement activities. They communicate our requirements to suppliers and perform on-site audits to ensure compliance. Our goal is to provide assurance to our customers and key stakeholders that our products are produced ethically and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



Responsible Sourcing and Risk Management

In line with the Sterling Group Responsible Sourcing Policy, we have implemented a structured approach to monitor and manage our garment suppliers. This includes self-assessments and on-site social compliance audits for suppliers. Our goal is to enhance visibility into employment practices, proactively monitor compliance, identify ethical sourcing risks, address non-conformances, and promote supplier capacity development.

To ensure compliance, we evaluate non-conformances identified during audits and categorize them as critical, major, or minor based on severity. Our audit checklist covers key areas such as worker welfare, labour rights, health and safety, and environmental risks. Each garment supplier receives a risk level score based on these assessments, which helps us establish long-term business relationships and collaborate with them to improve working conditions. Suppliers are required to remediate identified non-conformances within appropriate timeframes, depending on their nature and severity. We work closely with suppliers to develop comprehensive corrective action plans, followed by subsequent actions such as desktop reviews or on-site verifications to ensure compliance. Sterling Group adheres strictly to a Zero Tolerance Policy for severe issues including child labour, forced labour, discrimination, harassment, and imminent health and safety threats.



Managing risks along our supply chain is crucial in today's business environment. Our responsible sourcing program can evaluate the capabilities and performance of our partner factories, actively assessing both environmental and social risks. We understand that these risks can have significant consequences beyond economic considerations. In the fiscal year 2023/2024, there was 1 critical supplier located in the Philippines.

Potential environmental risks in our supply chain include:

- Pollution from hazardous chemicals, improper waste disposal, or inadequate environmental management practices in subcontracted factories.
- Resource depletion due to inefficient energy and water use or unsustainable sourcing of raw materials.
- Deforestation associated with sourcing materials such as cotton or wood-based fibers if sustainable practices are not followed.

Potential social risks include:

- Labour rights issues such as fair wages, working hours, safe conditions, and prevention of forced or child labour in subcontracted factories.
- Health and safety concerns from inadequate safety standards, lack of training, or insufficient protective measures for workers.
- Worker exploitation risks like excessive overtime, substandard living conditions, or lack of social benefits if proper labour standards are not upheld.
- Discrimination and harassment based on gender, race, or other factors within subcontracted factories.

By actively addressing these environmental and social risks, we strive to build a responsible and sustainable supply chain that safeguards our operations, protects our reputation, and aligns with our sustainability objectives. Our commitment includes clear communication of expectations, robust monitoring and auditing systems, and foster transparency and collaboration within our supply chain.

Note: A critical supplier is defined as one whose turnover exceeds 5% of the total turnover at the vendor level, Sterling's own production facilities are excluded.

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.



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



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 labour 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 labour 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.



Code of Conduct and Anti-Corruption

Our Code of Conduct, Anti-corruption 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-corruption 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.

Community Engagement

At Sterling Group, community engagement is a core aspect of our commitment to social responsibility. We have established dedicated volunteer teams that actively engage in local community activities, extending 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. In China, our team consistently visited families requiring assistance and generously donates groceries to alleviate their immediate needs. This initiative exemplifies our commitment to actively contribute to the well-being of the community and demonstrate solidarity with those facing challenges. Moreover, we expanded our community engagement efforts to include blood donation drives. Our employees in China willingly participated in these drives, recognizing the importance of collective efforts in supporting the local healthcare system and saving lives.

Our Sri Lanka factories organized special events to celebrate Women's Day and Children's Day. On Women's Day, we honored and acknowledged the contributions of women in our workforce through various activities, including workshops and recognition programs. Similarly, on Children's Day, we organized engaging and educational programs for the children of our employees, promoting a sense of inclusivity and a family-friendly environment within our organization.



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