

# STERLING

Sterling Group  
Holdings Limited



ESG  
Report  
**2024/25**

# CONTENTS

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ABOUT STERLING GROUP	2
ABOUT THE REPORT	3
SUSTAINABILITY GOVERNANCE	4
Sustainability Governance Structure	4
Sterling Sustainability Committee (SSC)	5
Sustainability Philosophy	6
Sustainability Strategy	6
Stakeholder Engagement	8
Sustainability Materiality Assessment	8
PLANET – ENVIRONMENTAL STEWARDSHIP	10
Environmental Management	10
Highlights of Carbon Mitigation Measures	10
Climate Goal	12
Energy Management	13
Water Management	13
Use of Materials	14
Waste Management	14
Higg Index	15
Task Force on Climate-Related Financial Disclosures (TCFD)	15
Governance	15
Strategy	16
Risk Management	23
Metrics and Targets	24
Product Responsibility	24
Green Procurement and Chemical Management	25
PEOPLE – SOCIAL RESPONSIBILITY	26
Labour Practices	26
Workforce Structure and Employees Turnover Rate	26
Health and Safety Management	27
Training and Development	28
Supply Chain Management	29
Supply Chain Management Strategy	29
Responsible Sourcing and Risk Management	30
Fair Trade USA Factory Program	31
WRAP Certification and Commitment to Responsible Manufacturing	34
SMETA Audit and Commitment to Ethical Practices	35
Code of Conduct and Anti-Corruption	35
Community Engagement	36
ESG CONTENT INDEX	37

# 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 competitive 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 seventh Environmental, Social and Governance (“ESG”) report of Sterling Group Holdings Limited for the fiscal year 2024/2025 (1 Apr, 2024 to 31 Mar, 2025). 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 IFRS S2 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.

During the fiscal year, Sterling Group achieved an annual turnover of HKD477 million and delivered a total of 2.3 million pieces of garments. The vast majority of our shipments, more than 99% were destined for the United States, with less than 1% shipped to other geographical locations.

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](mailto:sterling_esg@sphk.com.hk) with any comments, suggestions, or inquiries you may have.

# SUSTAINABILITY GOVERNANCE

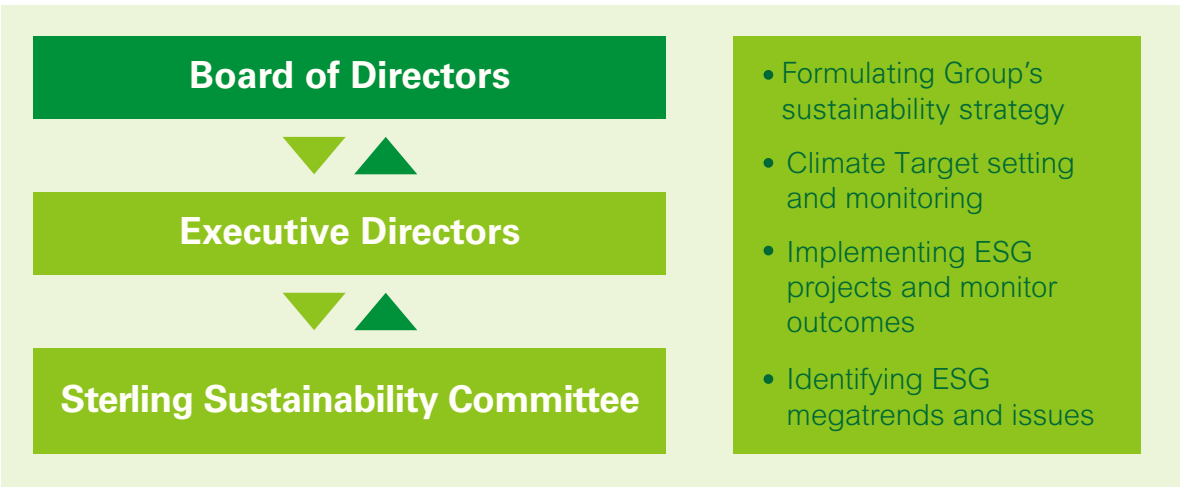
## SUSTAINABILITY GOVERNANCE STRUCTURE

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 as 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 de-carbonization 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 on 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.

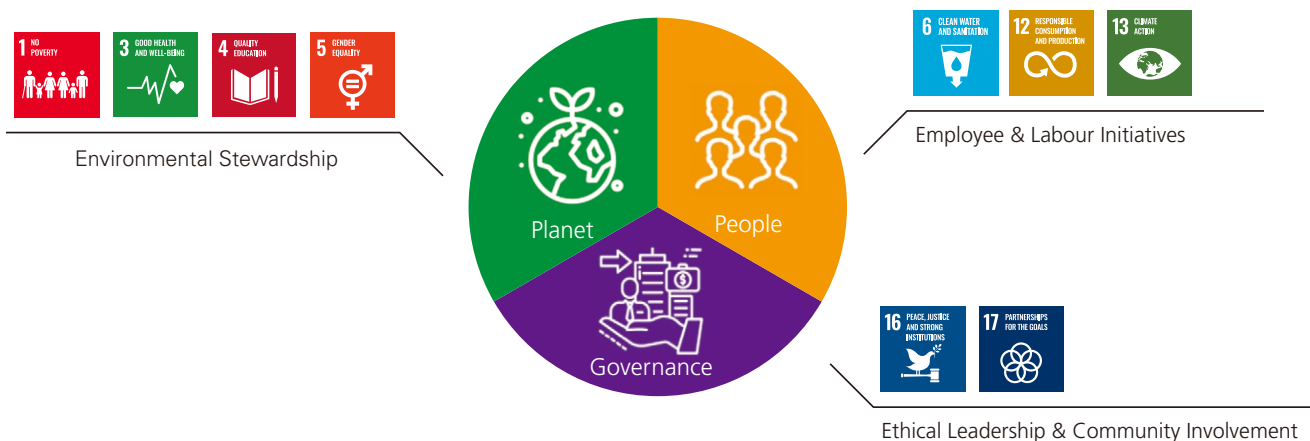
Understanding that sustainability is multifaceted, we align our efforts with established practices and focus on key areas such as climate change, biodiversity conservation, and the fight against modern slavery, all of which are crucial elements of the United Nations Sustainable Development Goals ("SDGs"). 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 use of resources. 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
<b>Environmental Stewardship</b>	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.
	Waste Reduction	Implementing green procurement policies and efficient material handling practices.
	Climate Goals	Setting and pursuing ambitious group climate targets for carbon mitigation.
<b>Employee &amp; Labour Initiatives</b>	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.
<b>Ethical Leadership and Community Involvement</b>	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 cornerstone of our sustainable development strategy, providing a platform to collect valuable ideas and insights on ESG matters. By engaging with key stakeholders including employees, customers, and board members, we evaluate material issues and determine the primary areas of focus for our sustainability efforts. The Sterling Sustainability Committee leads this process, helping us understand stakeholder expectations, concerns, and recommendations, which inform our decision-making. We use detailed questionnaires to capture a comprehensive view of stakeholder perspectives, encouraging collaboration and supporting the implementation of meaningful sustainability initiatives. Our dedication to stakeholder engagement strengthens our ability to build a more sustainable and responsible future.

## SUSTAINABILITY MATERIALITY ASSESSMENT

The Group has conducted a thorough materiality assessment to identify the ESG topics most relevant to our business and daily operations. Through stakeholder engagement, we have determined 20 key areas of focus spanning environmental responsibility, labor practices, social impact, and governance. These topics reflect the issues of greatest significance within the context of our operations.

Our materiality matrix, developed from these stakeholder interactions, serves as a crucial tool for prioritizing and understanding the importance of each ESG issue. It enables us to assess the impact and relevance of each topic, guiding our resource allocation to address the most critical areas first. By using this matrix, we ensure our sustainability efforts align with stakeholder expectations and focus on initiatives that can deliver the most positive outcomes for both our business and society.

Category	Topics
<b>Governance</b>	1. Business Performance
	2. Risk Management
	3. Law Compliance
<b>Environmental</b>	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

Category	Topics
<b>Social</b>	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 Rights and Labour Practice
	18. Anti-corruption
	19. Supplier Management
	20. Community Engagement

Note: 20 Key Sustainability Areas



# PLANET – ENVIRONMENTAL STEWARDSHIP

## ENVIRONMENTAL MANAGEMENT

Sterling Group is dedicated to adhering to all relevant environmental laws and regulations. During the reporting period, there were no violations of applicable environmental standards. The Company's core operations center on garment manufacturing, primarily utilizing cut-and-sewn techniques without involving laundry or dyeing processes. As a result, no industrial wastewater is generated at the garment factories. Electricity is the primary energy source, powering all stages from fabric cutting to garment assembly and final packing for delivery.

At Zhi Wei Garment Co., Ltd., transparency and accountability are integral to environmental, social and governance (ESG) practices. As part of this commitment, factory information has been registered with the Institute of Public & Environmental Affairs (IPE) platform, which is a leading database for environmental disclosure and compliance in China. The Company consistently follows environmental regulations and industry best practices and is proud to report no environmental violations during the reporting period.

## Energy Efficiency Measures in Our Offices

To promote sustainability and reduce energy consumption across all business units, including our Hong Kong office, we have implemented the following measures:

- Switch off air conditioning and lighting during non-essential hours to avoid unnecessary energy use.
- Power down idle equipment after working hours.
- Install and utilize energy-efficient LED lighting throughout office spaces.
- Maintain indoor office temperatures between 24°C and 26°C for optimal comfort and energy savings.
- Conduct regular maintenance to ensure air conditioning systems operate at peak efficiency.

These actions help us enhance operational efficiency, reduce our carbon footprint, and support a more sustainable workplace environment.

## HIGHLIGHTS OF CARBON MITIGATION MEASURES

Energy use plays a pivotal role in our manufacturing operations, directly influencing both efficiency and environmental performance. In 2024/25, we partnered with our buyer to participate in the Carbon Leadership Program (CLP), an initiative led by the Apparel Impact Institute (Aii). As part of this program, Chiefway Katunayake (Pvt) Ltd. underwent an initial assessment by RESET Carbon to explore opportunities for decarbonization.

Following a thorough energy audit, we identified four main areas that significantly contribute to our overall energy consumption and present clear opportunities for both energy savings and carbon reduction:

- Lighting
- Boiler Systems
- HVAC (Heating, Ventilation, and Air Conditioning) Systems
- Compressed Air Systems

These areas represent a substantial share of our total energy use, making them strategic priorities for targeted improvements and optimization efforts. By focusing on these key systems, we aim to enhance operational efficiency while advancing our sustainability and carbon mitigation goals.

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

## CLIMATE GOAL

Sterling Group is dedicated to addressing climate change and its potential impacts. In alignment with the 2015 Paris Agreement, we have set ambitious greenhouse gas emission reduction targets, fully supported by our top management, reflecting our ongoing commitment to sustainability.

### Current Target

***Sterling Group committed to reducing absolute Scope 1 and Scope 2 greenhouse gas emissions by 15% by 2025, using 2019 as the base year.***

The Sterling Sustainability Committee (SSC) oversees the achievement of these emission reduction targets and ensures effective collaboration across all our manufacturing sites. Our 2019 baseline for total Scope 1 and 2 absolute greenhouse gas emissions was 3,865 tonsCO<sub>2</sub>e. As of 2024/25, our total Scope 1 and 2 emissions had decreased to 2,289 tonsCO<sub>2</sub>e, representing a 40% reduction compared to the 2019 baseline. Specifically, Scope 1 emissions were 255 tonsCO<sub>2</sub>e and Scope 2 emissions were 2,034 tonsCO<sub>2</sub>e for the reporting year.

Note: Scope 1: Direct emissions from our factories (e.g., diesel/petrol/natural gas consumption). Scope 2: Indirect emissions from purchased electricity

### New Climate Target

Building on this progress, Sterling Group is establishing a new climate target to further advance our commitment to climate action:

***Sterling Group commits to reducing absolute Scope 1 and Scope 2 greenhouse gas emissions by an additional 15% by 2031, using 2024/25 as the new baseline year. This target is based on a minimum annual linear reduction of 2.5%, in line with the Science Based Targets initiative (SBTi) guidance for the apparel sector.***

This new 6-year target demonstrates our ongoing ambition to contribute to global climate goals and maintain alignment with international best practices. Achieving these emission reduction targets brings substantial benefits to Sterling Group. It enhances business resilience, strengthens competitiveness, and positions us as a leader in sustainable practices. By aligning our operations with the transition to a low-carbon economy, we are future-proofing our business and opening new market opportunities.

Our achievements in reducing greenhouse gas emissions underscore our commitment to being a responsible and forward-thinking company. We believe that ambitious climate action not only benefits the planet but also enhances our business reputation and long-term success.

## ENERGY MANAGEMENT

Sterling Group is committed to maximizing resource efficiency and minimizing environmental impact throughout our operations. We closely monitor energy consumption, with purchased electricity serving as the primary power source for our production facilities. In 2024/25, the Group's total energy consumption comprised 874 MWh of direct energy and 2,930 MWh of indirect energy from purchased electricity.

To advance our sustainability goals and meet the expectations of our business partners, we have implemented a comprehensive internal environmental policy. This policy focuses on reducing emissions and promoting energy-saving practices across all operational activities. Regular maintenance of equipment is prioritized to ensure optimal performance, while continuous improvements in equipment design and installation are made to enhance efficiency. We also foster a culture of sustainability by raising employee awareness and encouraging energy-saving behaviors in the workplace.

As a result of these efforts, Sterling Group's greenhouse gas emissions for 2024/25 were 255 tonsCO<sub>2</sub>e for Scope 1 and 2,034 tonsCO<sub>2</sub>e for Scope 2. The Group's total carbon footprint reached 2,289 tonsCO<sub>2</sub>e, with a carbon intensity of 2.03 kgCO<sub>2</sub>e per garment produced. These integrated initiatives are fundamental to our responsible environmental management, enabling us to achieve business objectives while consistently upholding high sustainability standards.

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 IPCC 2006 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

Our operations do not include fabric processing or washing, which means water use during production is minimal. Most of our water consumption is limited to domestic needs within our facilities. In 2024/25, our total water consumption was 36,007 m<sup>3</sup>, with a water intensity of 0.03 m<sup>3</sup> per piece produced.

To further promote responsible water management, we:

- Provide ongoing training for employees on water conservation.
- Conduct regular inspections and maintenance of water systems and equipment to promptly address and prevent leaks.

These measures help ensure efficient water use and reinforce our commitment to sustainable practices.

## USE OF MATERIALS

As a garment manufacturing company, Sterling Group recognizes that the use of packaging materials is essential for our final packing and delivery processes to ensure the reliability and safety of shipments. The primary packaging material we use is carton boxes. It is important to note that the specifications for most packaging designs are determined by our customers, which means we have limited influence over the selection of materials.

Our main priority is to comply with customer requirements while continuously striving to minimize over-ordering and enhance material handling practices to reduce wastage. In the reporting period, our total carton box consumption amounted to 102 tons.

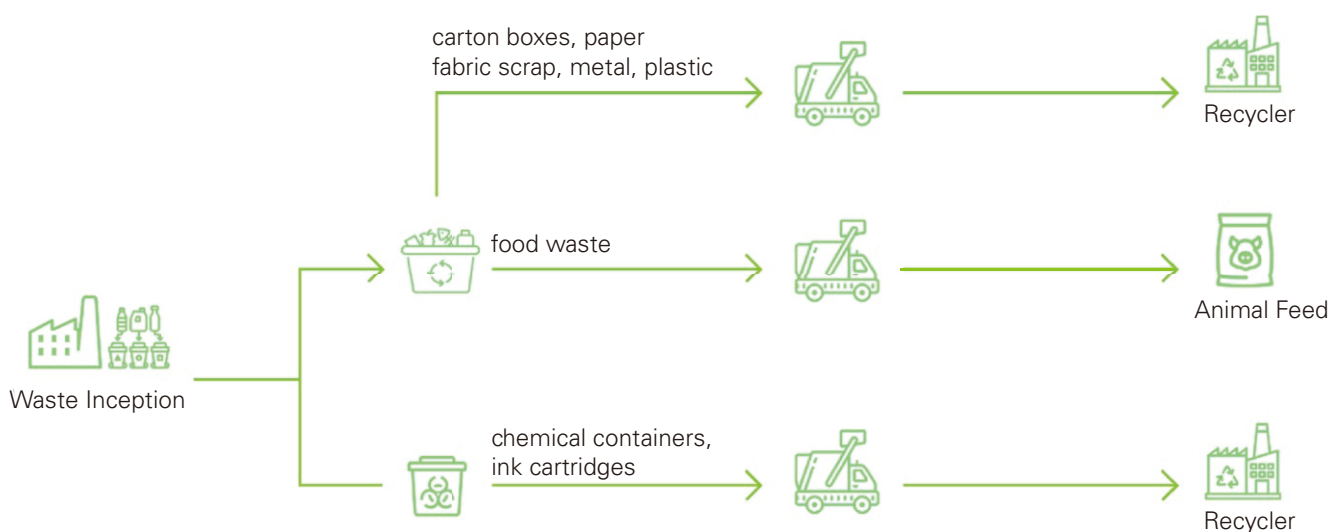
## WASTE MANAGEMENT

At Sterling Group, responsible waste management is a fundamental part of our sustainability commitment. In our garment manufacturing operations, we generate both non-hazardous and hazardous waste, and we are dedicated to managing these streams effectively to minimize environmental impact.

Our non-hazardous waste primarily consists of fabric scraps, carton boxes, paper, and other materials such as food waste and plastic. In the reporting period, the total amount of non-hazardous waste generated was 156 tons. To divert these materials from landfills, we have established recycling systems through third-party partners. We also promote waste segregation and employee education across all facilities, working closely with waste management providers to optimize resource utilization and continually reduce waste generation.

For hazardous waste, which includes items such as chemical containers and ink cartridges, we adhere to strict protocols to ensure safe handling and proper disposal in compliance with all applicable regulations. During the reporting period, hazardous waste amounted to 1 ton.

By continuously monitoring our waste management practices and exploring innovative solutions, we remain committed to minimizing waste and supporting a more sustainable future.



## HIGG INDEX

At Sterling Group, we are committed to advancing sustainability by adopting the Higg Index, a leading tool developed by the Sustainable Apparel Coalition. We employ the Facility Environmental Module (FEM) to thoroughly evaluate the environmental performance of our factories. The Higg Index enables us to systematically measure and score our operations across key areas, including:

- Environmental management systems
- Energy use and greenhouse gas emissions
- Air emissions
- Water use and wastewater management
- Waste management
- Chemicals management

By utilizing the Higg Index and its comprehensive self-assessment questionnaire, we actively promote sustainability awareness and foster a culture of continuous improvement throughout our facilities. This tool supports us in benchmarking our environmental performance, pinpointing areas for enhancement, and setting meaningful targets to ensure our operations align with industry best practices.

To guarantee the reliability and accuracy of our assessments, we engage independent third-party audit firms to verify our FEM results. This verification process not only strengthens our factories' understanding of environmental regulations but also ensures that our data collection methods are consistent and standardized. Through the implementation of the Higg FEM program, we empower our facilities, reinforce our dedication to ongoing improvement, and drive sustainability across our entire supply chain.

## TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

### 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

### Climate Scenario Analysis

Sterling Group has conducted comprehensive climate scenario analysis using a systematic frameworks to assess the resilience of our strategy and business model to climate-related risks and opportunities. We use the IPCC's Representative Concentration Pathways (RCPs) and Shared Socioeconomic Pathways (SSPs) for the assessment. SSPs are standardized global narratives describing how society, technology, and policy may evolve, influencing emissions and climate outcomes. Each RCP represents a different GHG concentration trajectory and provides a range of potential future climate scenarios. This analysis informs our strategic planning across short-term (2030), medium-term (2050), and long-term (2100) horizons. For our analysis, we have taken SSP1 (sustainability) paired with RCP2.6 which models a world with strong climate action, while SSP3 (regional rivalry) paired with RCP8.5 reflects a future with limited cooperation and high emissions. These scenarios inform our risk assessment and strategic planning by illustrating a range of possible climate and regulatory environments.

Scenario	Description	Changes in the temperature			Risks Profile
		by 2030 (Early-mid Century)	by 2050 (Mid- Century)	by 2100 (End-of Century)	
RCP2.6 SSP1	A pathway with sustainability-oriented future, indicating a future where stringent mitigation measures are implemented, rapid innovation in low-carbon technologies and consumer demand for sustainable fashion.	+1.0°C	+1.5°C	+1.8°C	Low physical risks, High transition risks
RCP8.5 SSP3	A pathway with high-emissions and fragmented future, indicating weak climate policy alignment, high fossil fuel dependency and sever climate-related risks disrupting supply chains.	+1.3°C	+2.5°C	+4.5°C	High physical risks, Low transition risks

## Climate-related Physical Risks

### Extreme Weather Events

RCP2.6 SSP1: Under a low-emissions scenario, the frequency and severity of acute events such as typhoons and floods are expected to be moderate. Our facilities in Sri Lanka and China face manageable operational disruptions, with adaptation measures such as improved flood defenses and emergency protocols expected to be effective over the short and medium term.

RCP8.5 SSP3: In a high-emissions world, Sterling anticipates a significant escalation in both the frequency and impact of extreme weather events. This could lead to more severe and frequent factory disruptions, longer recovery periods, and increased supply chain vulnerability, especially in regions with limited infrastructure resilience. Chronic risks, such as sea level rise, may necessitate long-term infrastructure upgrades or even site relocation.

### Heat Stress on Workers

RCP2.6 SSP1: Rising temperatures are expected to have a moderate impact on worker productivity. The Group's ongoing investments in energy-efficient cooling and adaptive work schedules are likely to maintain productivity within acceptable ranges.

RCP8.5 SSP3: Under this scenario, heatwaves and sustained high temperatures could cause notable reductions in productivity and increased health and safety risks. The need for substantial upgrades to cooling systems and enhanced worker protection measures would become critical.

### Water Scarcity

RCP2.6 SSP1: Water availability is expected to remain relatively stable, with manageable adaptation requirements through efficiency measures and water recycling.

RCP8.5 SSP3: Severe water shortages could arise, impacting production continuity and requiring significant investment in alternative sourcing and water management infrastructure.

## Climate-related Transition Risks

### Regulatory and Policy Changes

RCP2.6 SSP1: Sterling anticipates a predictable and supportive regulatory environment, with clear carbon pricing and disclosure requirements. Early compliance and proactive engagement in policy development will position the Group competitively.

RCP8.5 SSP3: The policy environment may be fragmented and unpredictable, with abrupt regulatory changes and higher compliance costs. This increases the risk of non-compliance and potential market access barriers.

### Market Demand and Reputation

RCP2.6 SSP1: Demand for sustainable, low-carbon products is expected to grow, supporting Sterling's Fair Trade and ESG-certified offerings. This scenario favors companies with strong sustainability credentials and transparent reporting.

RCP8.5 SSP3: Market preferences may shift towards cost over sustainability, increasing price competition and reducing the premium for ESG products. There is also a heightened risk of reputational damage if climate adaptation is perceived as insufficient.

### Technological Change

RCP2.6 SSP1: Accelerated adoption of low-carbon and digital technologies is expected, with investments in innovation yielding operational efficiencies and risk mitigation.

RCP8.5 SSP3: The pace of technological transition may be slower, but the risk of technology obsolescence and competitive disadvantage grows if adaptation lags behind industry standards.

Risk/Opportunity	RCP2.6 SSP1 (Low-Emissions)	RCP8.5 SSP3 (High-Emissions)
Extreme Weather Events	Moderate, manageable with adaptation	Severe, frequent, requires major upgrades/relocation
Heat Stress	Moderate, manageable with current investments	Notable productivity loss, critical need for cooling/protection
Water Scarcity	Stable, manageable through efficiency/recycling	Severe shortages, requires major infrastructure investment
Regulatory Changes	Predictable, supportive, clear requirements	Fragmented, unpredictable, higher compliance costs
Market Demand	Growth in sustainable products, ESG premium	Shift to cost focus, reduced ESG premium, reputational risk
Technological Change	Accelerated adoption, operational efficiency	Slower adoption, risk of obsolescence/disadvantage

Note: Climate-related Risks and Opportunities Summary.

## Climate-Related Risks and Effects

Type of risk	Climate-related risk	Effects on Sterling Group's business model	Effects along the value chain
<b>Climate-related Physical Risks</b>			
<b>Acute</b>	<ul style="list-style-type: none"> <li>Typhoons and monsoon-driven floods affecting Sri Lanka and Guangzhou facilities</li> </ul>	<ul style="list-style-type: none"> <li>Short-term plant closures interrupt production and delay deliveries</li> <li>Higher working-capital need to cover inventory buffers</li> </ul>	<ul style="list-style-type: none"> <li>Disruption to Philippine supplier's production</li> <li>Port congestion delays outbound U.S. shipments and inbound fabric</li> </ul>
<b>Chronic</b>	<ul style="list-style-type: none"> <li>Sea-level rise and recurrent flooding</li> <li>Rising wet-bulb temperatures leading heat stress on sewing operators</li> <li>Increasing water scarcity</li> </ul>	<ul style="list-style-type: none"> <li>Potential impairment of coastal factory assets; capex diverted to flood-wall elevation and drainage retrofits</li> <li>2% productivity loss per +1°C under SSP1; up to 5% under SSP3, requiring extra shifts and wage costs</li> <li>Interrupted boiler/steam processes for pressing and finishing, and it may need for on-site recycling systems</li> </ul>	<ul style="list-style-type: none"> <li>Long-term insurance-premium escalation across forwarders and warehouse partners located in low-lying areas</li> <li>Upstream fabric mills face parallel output dips, compounding Sterling's production schedule risk</li> <li>Risk of rationing by regional utilities curtails pretreatment at washing plant, delaying fabric</li> </ul>

Type of risk	Climate-related risk	Effects on Sterling Group's business model	Effects along the value chain
<b>Climate-related Transition Risks</b>			
<b>Policy and Legal Risk</b>	<ul style="list-style-type: none"> <li>Escalating carbon prices and mandatory HKEX/IFRS S2 disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Margin pressure from future Scope 1-2 levies on diesel generators and grid electricity</li> <li>Board-level capex re-prioritization toward rooftop solar and high-efficiency HVAC</li> </ul>	<ul style="list-style-type: none"> <li>Fabric suppliers pushed to issue verifiable carbon data; non-compliant mills risk deselection</li> </ul>
<b>Market Risk</b>	<ul style="list-style-type: none"> <li>U.S. buyers shifting to low-carbon apparel</li> </ul>	<ul style="list-style-type: none"> <li>Opportunity to widen premium "eco-woven" line, but demand volatility for conventional products; need dual portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Stronger preference for recycled materials pushes secondary-material vendors to scale collection networks</li> </ul>
<b>Technology Risk</b>	<ul style="list-style-type: none"> <li>Need for modular, energy-efficient machinery</li> </ul>	<ul style="list-style-type: none"> <li>Investment on tech-adaptation budget for low-carbon production</li> </ul>	<ul style="list-style-type: none"> <li>Digital traceability systems required across yarn-to-garment chain; smaller upstream suppliers face integration costs</li> </ul>
<b>Reputation Risk</b>	<ul style="list-style-type: none"> <li>Investor scrutiny on climate claims and ESG disclosures</li> <li>Growing demand for transparent, auditable ESG data</li> </ul>	<ul style="list-style-type: none"> <li>Potential loss of business if ESG claims are questioned or Scope 3 data is incomplete</li> <li>Increased costs and resources needed for third-party audits and enhances disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Auditable ESG metrics demanded tier-2 suppliers; non-compliant partners may be replaced</li> <li>Upstream partners face higher compliance costs and may need to upgrade their ESG practices</li> </ul>

Note: The estimated productivity loss of approximately 2% per +1°C increase in temperature under SSP1 and up to 5% per +1°C under SSP3 is based on international scientific research, including studies by the International Labour Organization (ILO) and the Intergovernmental Panel on Climate Change (IPCC).

## Mitigation and Adaptation Strategies

Acute Risks: Strengthen emergency response protocols, business continuity planning, and insurance coverage for extreme weather events.

Chronic Risks: Invest in infrastructure upgrades, energy-efficient technologies, water recycling, and long-term workforce adaptation.

Transition Risks: Enhance ESG governance, maintain proactive regulatory compliance, expand sustainable product offerings, and ensure transparent stakeholder communication.

## Climate Resilience

Sterling Group has assessed the resilience of its strategy and business model to climate-related changes, developments, and uncertainties, using scenario analysis based on internationally recognized pathways (RCP2.6 SSP1 and RCP8.5 SSP3). Our analysis covers our core manufacturing operations in Sri Lanka and China, as well as critical value chain partners.

Under a low-emissions scenario (RCP2.6 SSP1), Sterling's current strategy to focus on energy efficiency, sustainable product lines, and robust supply chain management which are well aligned with anticipated regulatory and market developments. The Group is positioned to capture opportunities from growing demand for ESG demand and benefit from stable, supportive policy environments.

Under a high-emissions scenario (RCP8.5 SSP3), Sterling anticipates more severe physical risks (floods, heatwaves, water scarcity) and greater supply chain volatility. Our resilience depends on accelerated adaptation: investing in infrastructure upgrades, diversifying suppliers, and enhancing disaster recovery protocols. The business model retains flexibility to shift production and adjust product portfolios as needed.

## Significant Areas of Uncertainty

### Physical Climate Uncertainty

The frequency, severity, and geographic pattern of extreme weather events (e.g., typhoons, floods, heatwaves) in Sri Lanka and China remain highly uncertain. Scientific projections vary, and local impacts may differ from global models due to microclimate, infrastructure, and land use factors.

### Chronic Risk Projections

Long-term trends such as sea-level rise, rising wet-bulb temperatures, and water scarcity are difficult to model at the facility level. The timing and magnitude of these changes may be influenced by global emissions pathways, national adaptation policies, and local watershed management.

### **Transition Policy and Regulatory Uncertainty**

The pace and stringency of climate-related regulation (e.g., carbon pricing, ESG disclosures and ESG data verification) in key markets is unpredictable. Sudden changes in policy or enforcement could alter compliance costs, market access, and supply chain requirements.

### **Market and Consumer Behavior**

The extent to which U.S. and global apparel buyers will prioritize ESG credentials versus cost in a high-emissions scenario is uncertain. Consumer preferences, brand loyalty, and willingness to pay for sustainable products may shift rapidly in response to economic or social trends.

### **Supply Chain Vulnerability**

The climate resilience of key suppliers is not fully transparent. Disruptions from acute events or regulatory changes upstream may propagate unpredictably through the value chain, affecting Sterling's ability to deliver finished goods.

### **Measurement and Data Gaps**

Some climate-related impacts (e.g., Scope 3 emissions, supplier risk, asset impairment) are subject to high measurement uncertainty due to incomplete data, evolving methodologies, and reliance on external partners for information.

### **Technological Change**

The availability, cost, and effectiveness of climate adaptation and low-carbon technologies (e.g., modular machinery, water recycling, digital traceability) may evolve faster or slower than anticipated, affecting both risk exposure and opportunity capture.

### **Capacity to Adjust or Adapt**

Sterling Group's capacity to adjust or adapt its strategy and business model to climate-related changes is underpinned by the following factors:

#### **Financial Flexibility**

Sterling maintains financial reserves to fund emergency response, infrastructure upgrades, and strategic investments in climate resilience. The Group's capital allocation process prioritizes climate adaptation projects with clear risk-reduction benefits.

#### **Operational Flexibility**

The Group's diversified manufacturing footprint (Sri Lanka and China) allows for reallocation of production in response to acute disruptions or chronic risks. Modular production systems and flexible shift scheduling enable rapid adaptation to changing conditions.

### **Technology and Infrastructure Investment**

Sterling has an established track record of investing in energy-efficient equipment, water recycling systems, and digital supply chain tools. The Group regularly reviews and updates its capital expenditure plans to incorporate the latest climate adaptation and mitigation technologies.

### **Governance and Scenario Planning**

Climate risk management is overseen by the Board and Sustainability Committee, with regular scenario analysis and strategy reviews. The Group's governance structure ensures that climate considerations are integrated into all major business decisions.

### **Continuous Improvement**

The Group reviews and updates its climate risk management approach annually, incorporating new data, stakeholder feedback, and lessons learned from climate events. Scenario analysis is refreshed in line with strategic planning cycles or when triggered by significant changes in risk profile.

## **Risk Management**

Sterling Group employs a comprehensive and integrated approach to the management of climate-related risks, embedding these processes within the Group's risk management framework. Oversight is provided by the Board of Directors, with implementation led by senior management through the Sterling Sustainability Committee (SSC).

### **Risk Assessment and Prioritization**

Each identified risk is evaluated for its likelihood and potential impact on Sterling Group's operations, supply chain, financial performance, and reputation. This assessment process is informed by cross-functional input from site management, procurement, compliance, and sustainability teams.

### **Risk Mitigation and Management Actions**

Sterling Group adopts a comprehensive approach to risk mitigation and management, addressing both physical and transition risks across its operations. Acute physical risks are managed through the implementation of robust emergency response protocols, comprehensive insurance coverage, and targeted facility upgrades such as flood-proofing and enhanced drainage systems. Chronic physical risks are mitigated by ongoing investments in infrastructure, the deployment of energy-efficient technologies, the expansion of water recycling initiatives, and workforce adaptation programmes to enhance long-term resilience.

For transition risks, regulatory and policy changes are proactively managed through continuous compliance monitoring and active engagement with evolving industry standards. Market and reputational risks are addressed by broadening the Company's sustainable product offerings, maintaining rigorous and transparent ESG disclosures, and engaging proactively with key stakeholders to build trust and credibility. Supply chain risks are controlled through regular ESG performance assessments, supplier diversification, and capacity-building support for critical partners, ensuring a resilient and responsible supply chain. This integrated strategy enables Sterling Group to navigate an evolving risk landscape while supporting sustainable business growth.

## Monitoring, Review, and Continuous Improvement

Climate risk management processes are subject to regular review and continuous improvement. The SSC ensures that lessons learned from climate events, regulatory developments, and stakeholder feedback are incorporated into risk controls, training programmes, and reporting systems. Annual reviews ensure that the Group's climate risk management remains aligned with best practices and emerging expectations.

## Metrics and Targets

Sterling Group tracks and reports on climate-related risks and opportunities using a comprehensive set of metrics that are aligned with international standards and regularly reviewed to meet stakeholder expectations. These metrics encompass greenhouse gas (GHG) emissions, energy consumption, water usage, and waste management. The Company measures and reports Scope 1 and Scope 2 GHG emissions annually, ensuring transparent disclosure of its direct and indirect environmental impact. Energy consumption is closely monitored, with a focus on both total usage and ongoing efficiency improvements. Water usage is tracked to monitor overall consumption and the effectiveness of conservation measures, while waste management metrics capture the volume of waste generated and progress in reduction and recycling initiatives.

## PRODUCT RESPONSIBILITY

At Sterling Group, ensuring product quality and safety is a top priority. We are committed to not only meeting but consistently surpassing our customers' expectations in these critical areas. Product safety is taken seriously, with the majority of raw materials specified by our customers. To guarantee consistent quality, we have established a dedicated Quality Assurance team that oversees the entire production process, from initial sample risk assessment to material selection and final garment assembly. Every stage of production is closely monitored through our internal quality control system, with the ultimate goal of delivering products and services that meet the highest standards of excellence and safety.

Respect for our customers' intellectual property is a core value at Sterling Group. We have implemented systematic controls and handling procedures within our production facilities to safeguard licensed materials. These measures include secure storage and strict accountability for all issued materials at the end of each shift.

We also maintain rigorous controls over customer-provided personal and trade information. Access to such information is carefully managed, and all individuals with access are required to understand and uphold strict confidentiality and privacy standards. Any unauthorized disclosure is considered a breach of our Company's employment contract.

During the reporting period, Sterling Group experienced no product recalls for safety or health reasons, nor did we receive any complaints related to our products or services. There were also no incidents of non-compliance concerning intellectual property rights, product responsibility, or data privacy. These results underscore our unwavering commitment to delivering high-quality, safe, and responsible products while maintaining the highest standards of integrity.

## GREEN PROCUREMENT AND CHEMICAL MANAGEMENT

At Sterling Group, we are acutely aware of the potential harm that hazardous substances in garment products can cause to both customers and the environment. To address these risks, we place a strong emphasis on the careful sourcing and procurement of fabrics and trims. Recognizing that chemical use is prevalent in textile manufacturing and can threaten local water sources and ecosystems, we have taken proactive steps to mitigate these impacts.

We have implemented a rigorous green procurement standard known as the Restricted Substances List (RSL) for all fabrics and trims. Our RSL policy and requirements are fully aligned with the AFIRM (Apparel and Footwear International RSL Management) guidelines, ensuring that our approach to restricted substances in consumer products meets industry best practices. This policy clearly outlines our expectations for material suppliers regarding chemical usage and specifies a list of restricted chemicals that we strive to minimize in our finished garments to reduce their environmental footprint.

To ensure strict compliance, all suppliers must adhere to our RSL requirements as set out in our procurement policy. When non-compliance is identified, we promptly seek alternative sources for materials. The procurement process is overseen by our dedicated purchasing department, which reports directly to senior management.

Through these comprehensive measures, Sterling Group is committed to minimizing hazardous substances in our products, reducing environmental impacts, and maintaining our dedication to sustainable and environmentally responsible manufacturing practices.

# PEOPLE – SOCIAL RESPONSIBILITY

## LABOUR PRACTICES

At Sterling Group, we are dedicated to maintaining a strong code of conduct and corporate values that emphasize the promotion and protection of human rights. We categorically reject all forms of child and forced labour, and have established a robust hiring system designed to prevent such practices. Our approach includes raising awareness, advocating for human rights within the organization, and providing targeted education to equip decision-makers with the knowledge and resources needed to effectively address and prevent child and forced labour.

To promote responsible practices throughout our supply chain, we have implemented a responsible sourcing program that covers our key suppliers. This program includes on-site social compliance audits to assess and verify that our standards are being met. We are equally committed to fostering a workplace that is free from discrimination, strictly prohibiting any form of discrimination based on race, age, gender, or sexual orientation.

We also place a high priority on compliance with local labour laws, including those related to wages, benefits, and working hours. We are proud to report that, during the reporting period, there were no instances of non-compliance with relevant laws and regulations. This record highlights our ongoing dedication to responsible, ethical, and fair labour practices throughout our operations.

## WORKFORCE STRUCTURE AND EMPLOYEES TURNOVER RATE

Sterling Group is committed to providing stakeholders with a clear and comprehensive understanding of our workforce. Transparency regarding the composition and dynamics of our team is essential to fostering an inclusive and diverse environment.

This section presents detailed information on our workforce structure, along with an analysis of our employee turnover rate. By examining turnover across various categories, we gain valuable insights into workforce trends and identify areas that may require further attention. For the reporting period, the overall employee turnover rate was 29%. This analysis supports our ongoing efforts to cultivate a stable, engaged, and diverse workforce.

Workforce Structure		
Gender of Employees	Male	294
	Female	919
Age Group of Employees	18 to 30	279
	31 to 40	339
	41 to 50	403
	more than 50	192
Geographical Location	Sri Lanka	1,040
	China	173

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

Employee Turnover		
Gender of Employees	Male	22%
	Female	32%
Age Group of Employees	18 to 30	65%
	31 to 40	26%
	41 to 50	19%
	more than 50	12%
Geographical Location	Sri Lanka	32%
	China	16%

## HEALTH AND SAFETY MANAGEMENT

Sterling Group is deeply committed to safeguarding the well-being of our employees by upholding the highest standards of occupational health and safety. Our foremost objective is to maintain a safe, productive, and high-quality work environment that shields our workforce from potential hazards and injuries. We recognize that our employees are our most valuable asset, and we are dedicated to fostering a culture of appreciation, engagement, and morale.

To support these goals, we deliver comprehensive safety training to all staff, ensuring they possess the knowledge and skills needed to perform their roles safely. Our facilities are equipped with high-quality safety equipment, and we continuously strive for a zero-accident workplace, prioritizing the protection of every individual.

Over the past three years, including the current reporting period, Sterling Group has recorded no work-related fatalities. However, the total lost days due to work-related injuries amounted to 124 days during the reporting period. This figure reflects the time employees were unable to work as a result of occupational injuries and underscores our ongoing commitment to improving workplace safety.

Each factory within the Group employs qualified health and safety officers who are responsible for monitoring and maintaining workplace safety. These officers conduct regular on-site assessments to evaluate working conditions, verify the proper functioning of equipment and machinery, and ensure compliance with all safety protocols. Through these proactive measures, we uphold robust safety policies that protect our employees and promote a secure working environment across all operations.

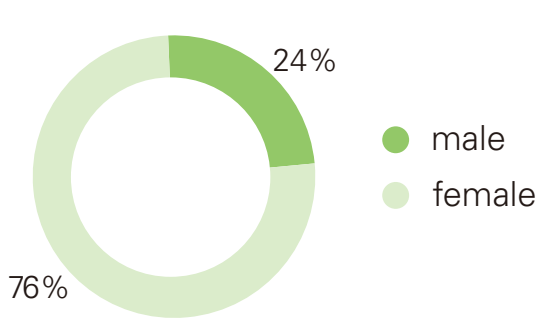
TRAINING AND DEVELOPMENT

At Sterling Group, we recognize that strong technical expertise and the consistent production of high-quality products are essential to our ongoing success. To support sustainability and drive continuous improvement, we are committed to investing in our employees by enhancing their performance, motivation, productivity, and the development of new production skills.

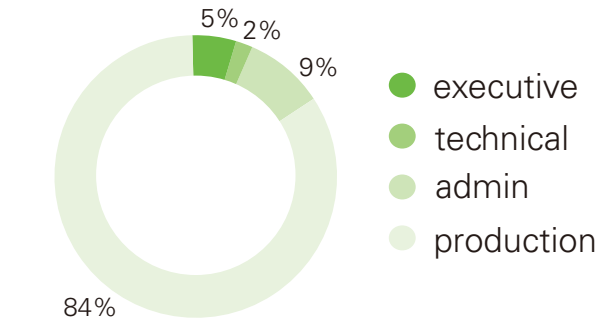
We achieve these objectives through a range of initiatives, including both on-the-job and external training programs. In the most recent reporting period, our employees received targeted training tailored to their roles:

Category	Average Training Hours
Male	2.7
Female	2.0
Executive	3.3
Technical	3.2
Administrative	2.0
Production	2.1

Percentage of Employees Trained by Gender



Percentage of Employees Trained by Category



Overall, the total training delivered across the Group exceeded 2,700 hours.

By providing these learning opportunities, we empower our employees to acquire new knowledge and upgrade their existing skills. This ongoing investment in their growth is a cornerstone of our commitment to excellence, ensuring that our workforce is equipped to meet evolving industry demands and maintain the highest standards of quality and performance.

## **SUPPLY CHAIN MANAGEMENT**

### **Supply Chain Management Strategy**

Effective supplier management is fundamental to Sterling Group's business success, especially as our operations expand geographically and our supplier base grows. To mitigate potential supply chain disruptions that could affect our financial performance and reputation, we take a strategic approach and dedicate additional resources to managing our critical suppliers.

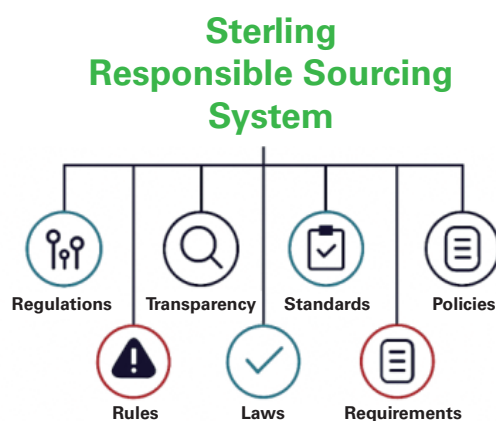
A critical supplier is defined as any tier 1 supplier whose business volume with Sterling Group exceeds 5%. During the reporting period, we identified one critical supplier, which is located in the Philippines. This supplier plays a significant role in the completion of our final products and requires heightened oversight to ensure that social and environmental risks are properly managed.

Sterling Group is committed to engaging with suppliers in a fair and lawful manner. We work closely with our partners to uphold human rights, promote decent working conditions, and advance sustainability throughout our supply chain. To effectively manage social and environmental risks, we utilize a grading system that not only guides our supply chain analysis but also serves as a management tool for evaluating overall supplier performance.

Our supplier engagement process encompasses several key initiatives:

- Implementation of the Sterling Group Responsible Sourcing Policy
- Supplier self-assessments to gauge compliance with our requirements
- On-site social compliance audits and gap analyses
- Supplier capacity-building and educational programs
- Remediation of any identified non-conformances

A dedicated Compliance team oversees all supplier engagement activities, ensuring that our standards are clearly communicated and that on-site audits are conducted to verify compliance. This team reports directly to senior management, including the board of directors, ensuring transparency and open communication. Through these efforts, we provide assurance to our customers and stakeholders that our products are manufactured ethically and sustainably.



## Responsible Sourcing and Risk Management

In alignment with the Sterling Group Responsible Sourcing Policy, we have established a systematic framework to oversee and manage our garment suppliers. This framework incorporates supplier self-assessments and on-site social compliance audits, aiming to increase transparency in employment practices, proactively monitor adherence to standards, identify ethical sourcing risks, address non-conformances, and support the ongoing development of supplier capabilities.

To maintain high standards, we assess any non-conformances identified during audits and classify them as critical, major, or minor according to their severity. Our audit checklist evaluates essential areas such as worker welfare, labor rights, health and safety, and environmental risks. Each garment supplier is assigned a risk level score based on these assessments, which guides our efforts to build long-term partnerships and collaborate on improving workplace conditions. Suppliers are required to correct any identified non-conformances within specified timeframes appropriate to the issue's seriousness. We work closely with suppliers to create detailed corrective action plans, and follow up with desktop reviews or on-site verifications to ensure that these actions are effectively implemented.

Sterling Group enforces a strict Zero Tolerance Policy for severe violations, including child labor, forced labor, discrimination, harassment, and any immediate threats to health and safety.

In the fiscal year 2024/2025, we identified one critical supplier located in the Philippines, and below is the risk assessment for the environmental and social aspects.

Environmental Risks	Social Risks
<ul style="list-style-type: none"> <li>• Pollution from hazardous chemicals, improper waste disposal, or inadequate environmental management in subcontracted factories</li> <li>• Resource depletion due to inefficient energy and water use or unsustainable sourcing of raw materials</li> <li>• Deforestation associated with sourcing materials such as cotton or wood-based fibers if sustainable practices are not followed</li> </ul>	<ul style="list-style-type: none"> <li>• Labour rights issues such as fair wages, working hours, safe conditions, and prevention of forced or child labour</li> <li>• Health and safety concerns from inadequate safety standards, lack of training, or insufficient protective measures for workers</li> <li>• Worker exploitation risks like excessive overtime, substandard living conditions, or lack of social benefits</li> <li>• Discrimination and harassment based on gender, race, or other factors within subcontracted factories</li> </ul>

### FAIR TRADE USA FACTORY PROGRAM

Sterling Group is proud to participate in the Fair Trade program, partnering with our largest customer – an iconic American fashion brand. Through Fair Trade USA, our Sri Lanka factories, Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd., have undergone comprehensive factory assessment and rigorous certification by an independent, Fair Trade-appointed Conformity Assessment Body. The Fair Trade Certified seal represents our commitment to rigorous standards that promote sustainable livelihoods, safe working conditions, environmental responsibility, and transparent supply chains. For every Fair Trade Certified product sold, a Fair Trade Premium is contributed by the retailer to a Community Development Fund at the factory level. This fund is managed by a democratically elected Fair Trade Committee, ensuring that workers have a direct voice in how the premiums are allocated to benefit their lives and communities.

A key strength of the Fair Trade program is its ability to empower workers to improve their livelihoods beyond the workplace. The following cases highlight how employees at our Sri Lanka factories have utilized the Fair Trade Premium to launch secondary income sources, improve their financial stability, and support their families and communities.



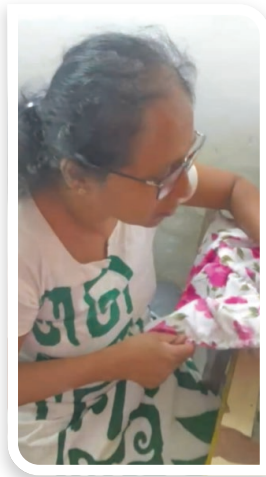
### Producing and Selling Rope

Ms. M.C. Wijesinghe has successfully established a small business producing and selling rope, using support from the Fair Trade Premium. She has developed a sustainable secondary income stream that strengthens her financial position. This initiative demonstrates how the Fair Trade program enables workers to innovate, make use of available resources, and improve their livelihoods beyond the factory floor.



### **Tailoring – Expanding Skills and Income**

H.A.M. Priyanthi has leveraged the Fair Trade Premium to grow her tailoring business. After work and on weekends, she fulfills tailoring orders for various dresses, steadily building a loyal customer base in her village. This additional income has empowered her to support her family and aspire to further expand her business, illustrating the transformative potential of Fair Trade support for entrepreneurial workers.



### **Tailoring – Community Service**

Ms. W.K.A. Janaki has also used the Fair Trade Premium to develop a tailoring business, specializing in frocks, shirts, and school uniforms. By meeting local demand for these essential garments, she has established a strong reputation within her community. The Fair Trade program has provided her with the means to enhance her skills, serve her neighbors, and secure a more stable financial future for her family.



## Selling Fruits – Building a Family Business

Ms. B.N. Perera started a fruit-selling business with the support of her brother and capital from the Fair Trade Premium. This venture has not only improved her family's financial situation but also allowed her to contribute to the local economy. Her success story reflects the broader impact of Fair Trade: empowering workers to pursue new opportunities and invest in their communities.



Through the Fair Trade program, Sterling Group demonstrates how responsible business practices can deliver direct and meaningful benefits to workers, their families, and the broader community. By allocating Fair Trade Premiums to initiatives chosen by employees themselves, workers are empowered to launch small businesses that generate additional income and foster financial independence. These opportunities not only improve individual livelihoods but also strengthen family resilience and contribute to local economic development. The program's inclusive approach ensures that the advantages of Fair Trade extend beyond the factory, supporting sustainable growth, skill development, and social well-being, and helping to build a more equitable and sustainable future for all involved.

## WRAP CERTIFICATION AND COMMITMENT TO RESPONSIBLE MANUFACTURING

Sterling Group is proud to highlight that our Sri Lanka factories, Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd., have achieved and consistently maintained certification under the Worldwide Responsible Accredited Production (WRAP) program for several years, earning the distinguished Gold rating. This accomplishment reflects our steadfast commitment to the highest standards of ethical and responsible manufacturing.

WRAP is a respected, independent, non-profit organization dedicated to advancing corporate social responsibility in factories around the world. The Gold certification demonstrates our consistent compliance with WRAP's 12 core principles, which are grounded in internationally recognized workplace regulations. These principles encompass human resources management, health and safety, environmental stewardship, legal compliance and security standards.

Our ongoing adherence to these comprehensive standards underscores Sterling Group’s dedication to maintaining a safe, fair, and sustainable workplace. It reinforces our reputation as a leader in ethical manufacturing practices, ensuring that our operations not only meet but exceed global expectations for responsible production.



## SMETA AUDIT AND COMMITMENT TO ETHICAL PRACTICES

Sterling Group is committed to upholding the highest standards of corporate social responsibility across all operations. Our China factory, Zhi Wei (Guangzhou) Garment Manufacturing Co., has demonstrated this commitment by actively participating in the Sedex Members Ethical Trade Audit (SMETA), a globally recognized audit protocol that sets benchmarks for ethical business conduct.

SMETA provides a thorough evaluation of key areas such as labor conditions, occupational health and safety, environmental management, and ethical business practices. By partnering with reputable third-party audit firms for the SMETA process, we ensure that our practices are independently assessed and continuously improved. Through regular SMETA audits, we rigorously review and enhance our operations to meet and exceed industry standards. This ongoing participation reflects our dedication to protecting workers’ rights, promoting safe and healthy workplaces, safeguarding the environment, and maintaining integrity in all business dealings.

We recognize the significant impact our actions have on our employees, the environment, and the wider business community. By engaging in SMETA, Sterling Group reaffirms its commitment to ethical operations and ensures that our China factory consistently aligns with best practices in corporate social responsibility.

## CODE OF CONDUCT AND ANTI-CORRUPTION

At Sterling Group, our Code of Conduct, Anti-corruption Policy, and related policies establish clear expectations and standards for all employees. These policies highlight the importance of honesty, fairness, and strict adherence to legal and Company requirements, while also emphasizing the duty to report any suspected violations. To support our policies, all employees have received relevant training to help staff understand how to identify, prevent and report any form of bribery or corruption. Training is provided when employees join the Company and is refreshed when necessary to keep everyone up to date on best practices and Company expectations.

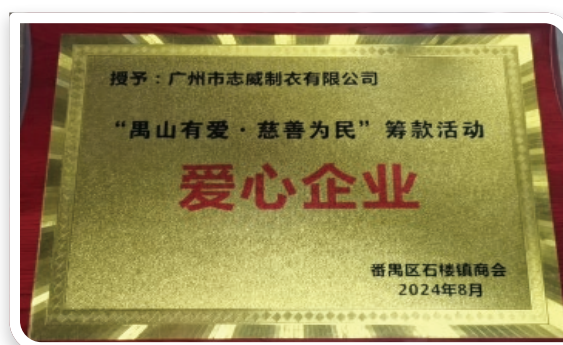
The Anti-corruption Policy explicitly forbids all forms of corruption and misconduct. It provides employees and business partners with practical guidance on recognizing and responding to instances of bribery or corruption. Any breach of these policies by employees is treated as a serious offense and may result in disciplinary measures, including dismissal. Likewise, violations by business associates can lead to contract termination or legal proceedings. Notably, there were no cases of litigation or allegations of corruption during the reporting period.

To further reinforce ethical conduct, management has established authorization procedures to address and resolve potential conflicts of interest. These procedures ensure a robust system of checks and balances, with heightened oversight for high-value transactions. The management team is fully committed to the consistent and effective enforcement of the Company's Code of Conduct and anti-corruption measures.

Through these comprehensive policies and procedures, Sterling Group demonstrates an unwavering dedication to integrity, transparency, mutual respect, and the prevention of corruption. By upholding these values, we foster a business environment that supports sustainable growth and the highest ethical standards.

## COMMUNITY ENGAGEMENT

At Sterling Group, we recognize the value of engaging with the communities where we operate as part of our broader commitment to social responsibility. Our teams participate in a variety of local initiatives aimed at supporting those in need and building positive relationships within the community. In China, employees have taken part in activities such as visiting families requiring assistance and making donations to help meet immediate needs. We acquired an accreditation of a Caring Enterprise in 2024. In Sri Lanka, our factories have donated furniture to a local school, further supporting educational development and demonstrating our ongoing commitment to community well-being. Through these efforts, Sterling Group aims to contribute to the well-being of the communities connected to our operations.



# ESG CONTENT INDEX

Aspects	Key Performance Indicators (KPI)	Page
<b>SUBJECT AREA A: ENVIRONMENT</b>		
A1 – Emission	General Disclosure	10
	A1.1 Types of emissions and respective volume of emissions data	12
	A1.2 Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emission and, where appropriate, intensity	12
	A1.3 Total hazardous waste produced and, where appropriate, intensity	14
	A1.4 Total non-hazardous waste produced and, where appropriate and intensity	14
	A1.5 Description of emission target(s) set and step taken to achieve them	12
	A1.6 Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	14
A2 – Use of Resources	General Disclosure	13
	A2.1 Direct and/or indirect energy consumption by type in total and intensity	13
	A2.2 Water consumption in total and Intensity	13
	A2.3 Description of energy use efficiency target(s) set and step taken to achieve them	13
	A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them	13
	A2.5 Total packaging material used for finished products	14
A3 – The Environment and Natural Resources	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	10
A4 – Climate Change	A4.1 Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	10

Aspects	Key Performance Indicators (KPI)	Page
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## SUBJECT AREA B: SOCIAL

### Employment and Labour Practices

B1 – Employment	General Disclosure	26
	B1.1 Total workforce by gender, employment type, age group and geographical region	27
	B1.2 Employee turnover rate by gender, age, group and geographical region	27
B2 – Health and Safety	B2.1 Number and rate of work-related fatalities occurred in each of the past three years including reporting year	27
	B2.2 Lost days due to work injury	27
	B2.3 Description of occupational health & safety measures adopted, and how they are implemented and monitored	27
B3 – Development and Training	B3.1 Percentage of employees trained by gender and employee category	28
	B3.2 The average training hours completed per employee by gender and employee category	28
B4 – Labour standards	B4.1 Description of measures to review employment practices to avoid child and forced labour	26
	B4.2 Description of steps taken to eliminate such practices when discovered	26

### Operating Practices

B5 – Supply Chain Management	B5.1 Number of suppliers by geographical region	29
	B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored	30
	B5.3 Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	31
	B5.4 Description of practices used to promote environmental preferable products and services when selecting suppliers, and how they are implemented and monitored	30

Aspects	Key Performance Indicators (KPI)	Page
B6 – Product Responsibility	B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons	24
	B6.2 Description of products and service related complaints received and how they are dealt with	24
	B6.3 Description of practices relating to observing and protecting intellectual property right	24
	B6.4 Description of quality assurance procedures and recall procedures	24
	B6.5 Description of consumer data protection and privacy policies, and how they are implemented and monitored	24
B7 – Anti-corruption	B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	35
	B7.2 Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored	35
	B7.3 Description of anti-corruption training provided to directors and staffs	35
<b>Community</b>		
B8 – Community Investment	B8.1 Focus areas of contribution	36
	B8.2 Resources contributed to focus areas	36

