STERLING GROUP

HOLDINGS LIMITED

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2025/26

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About Sterling Group

Sterling Group Holdings Limited (referred to as "The Group", "Sterling", "Sterling 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 eighth Environmental, Social and Governance ("ESG") report of Sterling Group Holdings Limited for the fiscal year 2025/2026, covering the period from 1 April 2025 to 31 March 2026. 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 has been prepared in accordance with the Environmental, Social and Governance Reporting Code (the "ESG Code") set out in Appendix C2 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Group's climate-related disclosures are made with reference to Part D of the ESG Code, IFRS S2 Climate-related Disclosures and the framework of the Task Force on Climate-related Financial Disclosures ("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 serve a strategic role in our manufacturing capabilities. The reporting boundary of this report covers all three factories. During the fiscal year, Sterling Group achieved an annual turnover of approximately HK$328 million and delivered a total of 1.5 million pieces of garments. The vast majority of our shipments, more than 98%, were destined for the United States, with less than 2% shipped to other geographical locations.

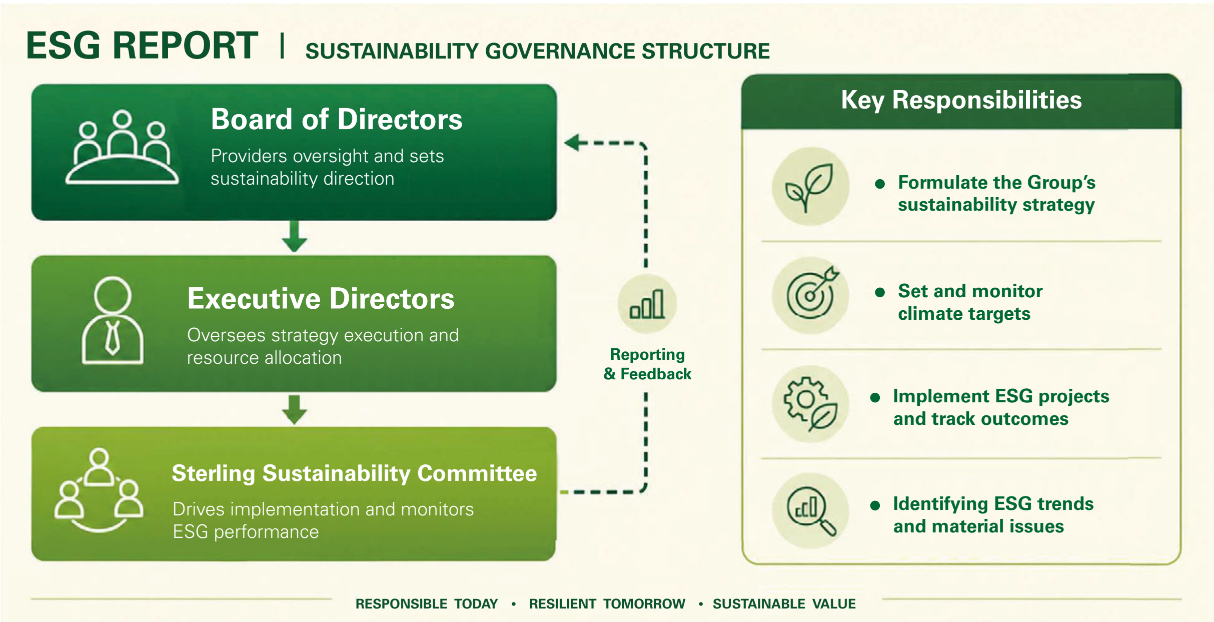
As we present this report, we reaffirm our commitment to promoting sustainable practices and generating long-term value for all our stakeholders. By transparently sharing our ESG initiatives, performance metrics and future strategies, we strive to foster trust and demonstrate our responsible corporate citizenship while addressing the environmental and social challenges inherent in our industry. This report underscores our ongoing efforts to integrate 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 welcome feedback on this report and our broader sustainability strategy at sterling_esg@sphk.com.hk.

Sustainability Governance

SUSTAINABILITY GOVERNANCE STRUCTURE

The Group firmly recognizes ESG as an integral part of its governance framework and an important responsibility of the Board. The Executive Directors oversee the Group's ESG-related risks and opportunities and ensure that appropriate ESG risk management and internal control systems are in place. The Sterling Sustainability Committee supports this work by driving, monitoring and evaluating ESG initiatives across the Group's operations, while the Board and management work together to translate ESG values into company strategy and day-to-day operations.

The Group remains committed to continuous improvement in environmental and social responsibility. In close collaboration with regional management teams, we continue to strengthen our sustainability strategy, with particular focus on decarbonization, climate change response and providing a safe workplace for employees. The Group has also established climate goals aligned with its business model and operations, and progress against these goals will be reported half-yearly and reviewed by the Board to ensure transparency and accountability. Through these efforts, the Group aims to enhance its reputation, mitigate risks and create long-term value for stakeholders while contributing to a more sustainable future.



STERLING SUSTAINABILITY COMMITTEE (SSC)

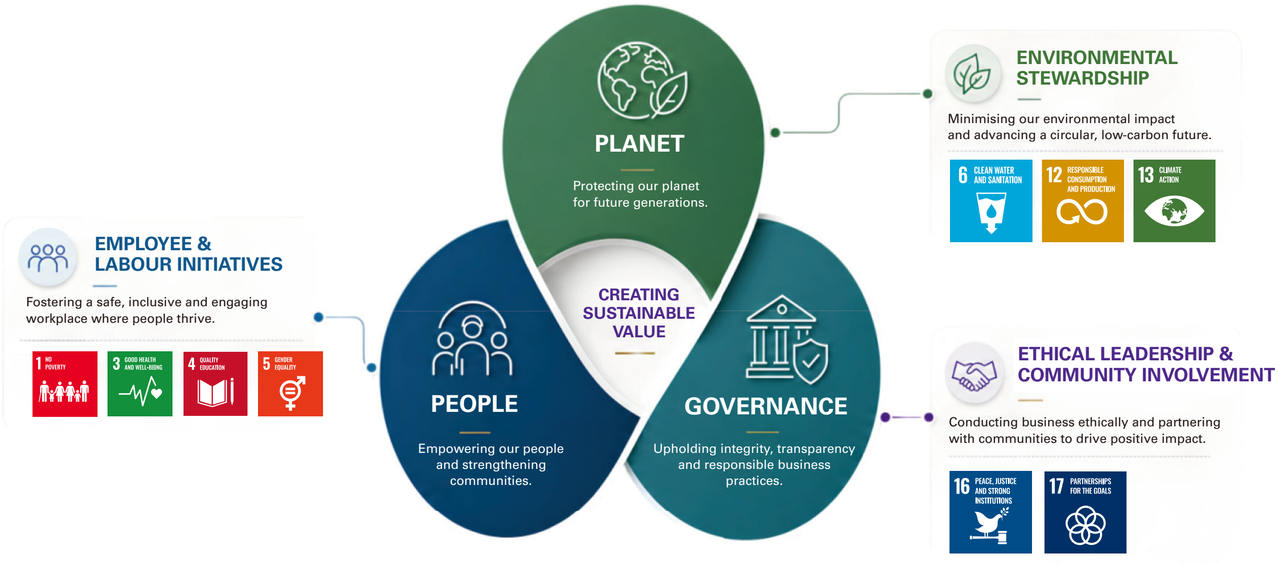
The Sterling Sustainability Committee (SSC) was established to support the effective implementation of the Group's ESG initiatives and the development of its sustainability strategy. Comprising senior management and staff members with relevant ESG knowledge, the SSC plays an important role in raising company-wide awareness of ESG priorities and ensuring environmental and social considerations are reflected in management decisions and daily operations.

With members drawn from different levels of the organization and various functional departments, the SSC brings together diverse perspectives to address ESG challenges and opportunities across the Group. Through close collaboration with management teams, the Committee helps drive a comprehensive sustainability strategy aligned with the Group's business objectives, while strengthening transparency, accountability and long-term sustainable performance.

SUSTAINABILITY PHILOSOPHY AND STRATEGY

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. At Sterling, we integrate the three pillars of profits, planet and people into our operations, with the goal of achieving financial success alongside positive environmental and social outcomes. We believe that sustainable business practices are not separate from business performance, but an essential part of long-term value creation.

Our sustainability strategy is aligned with the United Nations Sustainable Development Goals (SDGs). Introduced in 2015, the SDGs comprise 17 goals and 169 targets and provide a global blueprint for a better and more sustainable future. They address interconnected global challenges, including poverty, inequality, climate change, environmental degradation, peace and justice. By aligning our business priorities with the SDGs, we aim to focus our efforts on the areas where we can create the greatest positive impact for our employees, customers, communities and the environment.



Sustainability Initiative

Topic	Initiatives	Highlights
Environmental Stewardship	Energy Efficiency	Implement energy-saving measures and improve energy performance through technology upgrades and operational controls.
	Water Conservation	Promote water-saving practices and maintain equipment regularly to prevent leaks and reduce wastage.
	Waste Reduction	Implement green procurement policies and improve material handling to reduce waste generation.
	Climate Goals	Set and pursue ambitious Group climate targets to support carbon mitigation.
Employee & Labour Initiatives	Ethical Labour Practices	Provide fair treatment, safe working conditions and freely chosen employment across the Group.
	Economic Growth	Foster a supportive workplace that enhances productivity and contributes to economic development.
	Gender Equality Initiatives	Promote gender equality in the workplace through WRAP and SMETA accreditations.
	Safe Working Conditions	Provide health and safety training and comply with the Restricted Substances List ("RSL").
	Employee Training Programmes	Offer training and development opportunities to strengthen skills and career prospects.
Ethical Leadership and Community Involvement	Anti-Corruption Policies	Enforce a robust code of conduct and anti-corruption measures.
	Transparency and Accountability	Maintain transparent reporting and active stakeholder engagement.
	Collaborative Efforts	Engage stakeholders to promote sustainable practices and achieve the SDGs collectively.

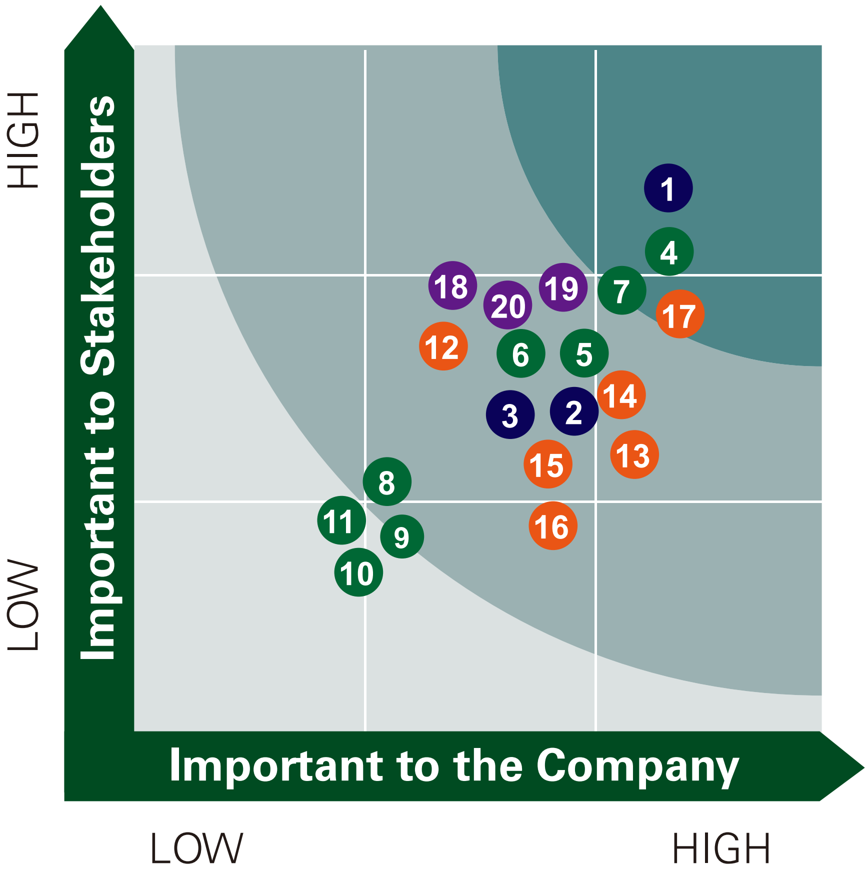
STAKEHOLDER ENGAGEMENT

Stakeholder engagement is a cornerstone of our sustainability strategy and provides a structured platform for gathering insights on ESG matters. Through regular engagement with key stakeholders, including employees, customers, board members, and other relevant parties, we identify material issues and determine the areas of greatest importance to our sustainability priorities. The Sterling Sustainability Committee leads this process by assessing stakeholder expectations, concerns, and recommendations, which are then considered in our decision-making and strategy development. We also use questionnaires and other feedback channels to capture a broader range of perspectives and support more informed and effective sustainability initiatives. This ongoing engagement helps strengthen trust, enhance responsiveness, and support the Group's long-term sustainable development.

SUSTAINABILITY MATERIALITY ASSESSMENT

The Group has conducted a materiality assessment to determine the ESG issues that are most significant to our business and stakeholders. This process, informed by stakeholder engagement and internal review, identified 20 material topics spanning governance, environmental stewardship, employee and labour practices, supply chain management, and community-related matters.

The resulting materiality matrix provides a structured basis for evaluating and prioritizing ESG issues. It supports the Group in directing resources toward the topics that are most relevant to our operations and stakeholders, thereby strengthening the alignment between our sustainability strategy and long-term business objectives.



Category	No.	Topics
Governance	1	Business Performance
	2	Risk Management
	3	Law Compliance
Environmental	4	Climate Change Risk and Adaptation
	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	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

Planet – Environmental Stewardship

ENVIRONMENT MANAGEMENT

Sterling Group is committed to complying with all applicable environmental laws and regulations. During the reporting period, the Group did not record any material environmental non-compliance incidents.

Our core operations are cut-and-sew garment manufacturing. We do not carry out laundry or dyeing processes, and therefore no industrial wastewater is generated at our garment factories. Electricity is the primary energy source used across our operations, from fabric cutting and garment assembly to final packing and shipment. At Zhi Wei (Guangzhou) Garment Co., Ltd., environmental transparency and accountability remain an important part of our ESG approach. The factory information has been registered on the Institute of Public & Environmental Affairs (IPE) platform in China, and we continue to monitor environmental compliance in line with relevant regulatory requirements and industry practices.

Energy Efficiency Measures in Our Offices

To reduce energy consumption across all business units, including our Hong Kong office, the Group has implemented office energy-saving measures such as switching off air conditioning and lighting during non-essential hours, powering down idle equipment after working hours, using energy-efficient LED lighting, maintaining indoor temperatures between 24°C and 26°C, and carrying out regular air-conditioning maintenance.

Highlights of Carbon Mitigation Measures

Energy use is a key driver of both operational efficiency and environmental performance in our manufacturing operations. In 2024, the Group partnered with our buyer to participate in the Carbon Leadership Program (CLP), an initiative led by the Apparel Impact Institute (Aii). As part of the program, Chiefway Katunayake (Pvt) Ltd. completed an initial assessment by RESET Carbon to identify decarbonization opportunities.

Following the energy audit, four priority areas were identified as major contributors to overall energy consumption and potential carbon reduction:

- Lighting.
- Boiler systems.
- HVAC systems.
- Compressed air systems.

These systems represent the main areas of focus for targeted efficiency improvements and optimization. By addressing them, the Group aims to reduce energy use, improve operational efficiency, and advance its carbon mitigation objectives.

Area	Initiatives	Highlights
Lighting	Lights-off policy, timers, motion sensors, lighting audits.	Reduced energy waste and improved lighting efficiency.
Boiler Systems	Thermal imaging, steam line insulation, regular maintenance.	Reduced heat loss and improved boiler performance.
HVAC Systems	Reduced standalone AC units, monitored temperature and humidity.	Lower energy use while maintaining comfort.
Compressed Air Systems	Air leak inspections, pressure tests, system optimization.	Reduced leakage and improved system reliability.

Climate Goal

Sterling Group is committed to addressing climate change and reducing greenhouse gas emissions in line with the 2015 Paris Agreement. The Sterling Sustainability Committee oversees the Group's climate performance and supports collaboration across all manufacturing sites.

Using 2024/25 as the new baseline year, the Group has set a target to reduce absolute Scope 1 and Scope 2 greenhouse gas emissions by 15% by 2031. This target is based on a minimum annual linear reduction of 2.5% and aligns with Science Based Targets initiative guidance for the apparel sector.

For the reporting year 2025/26, the Group recorded total Scope 1 and Scope 2 emissions of 1,935 tCO_2e, representing a reduction of approximately 15.5% from the 2024/25 baseline of 2,289 tCO_2e. Scope 3 emissions for the year were 9,157 tCO_2e.

ENERGY MANAGEMENT

Sterling Group is committed to improving resource efficiency and reducing the environmental impact of its operations. Purchased electricity remains the primary energy source for our production facilities. In 2025/26, the Group recorded total energy consumption of 3,217 MWh, of which 2,428 MWh came from purchased electricity and 789 MWh derived from direct energy.

To support our sustainability objectives and meet the expectations of our business partners, the Group has implemented an internal environmental policy focused on reducing emissions and promoting energy-saving practices across operations. Key measures include regular equipment maintenance to maintain optimal performance, continuous improvement of equipment design and installation to enhance efficiency, and employee awareness initiatives to encourage energy-saving behavior in the workplace.

As a result of these efforts, the Group recorded 243 tCO_2e of Scope 1 emissions and 1,692 tCO_2e of Scope 2 emissions in 2025/26. Total greenhouse gas emissions amounted to 1,935 tCO_2e, with energy intensity 4.63 kWh/pcs and 2.47 $kgCO_2e$/pcs. These initiatives support responsible environmental management while enabling the Group to meet operational and sustainability objectives.

Notes:

- Scope 1 emissions mainly arise from the consumption of diesel, natural gas and petrol. Emission factors are based on the IPCC 2006 Guidelines for National Greenhouse Gas Inventories.
- Scope 2 emissions relate to purchased electricity. 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 using calorific value conversions factors.

Scope 3 Emissions

Sterling Group recognizes that greenhouse gas emissions extend beyond our direct operations and purchased electricity to include emissions generated across our value chain. In 2025/26, the Group has conducted a Scope 3 emissions assessment to better understand the broader climate impacts associated with our upstream and downstream activities. This assessment provides a more complete picture of our carbon footprint and supports our ongoing decarbonization efforts.

Our Scope 3 inventory covers the material categories relevant to Sterling's business model and operating structure. These include purchased goods and services, capital goods, fuel- and energy-related activities not included in Scope 1 or Scope 2, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, and downstream leased assets. Categories that are not applicable to Sterling's business, including processing of sold products, use of sold products, end-of-life treatment of sold products, franchises, and investments, are currently excluded from the inventory.

Based on the current assessment, Sterling Group's projected Scope 3 emissions for 2025/26 total 9,157 tCO_2e. The largest contributor is purchased goods and services, driven primarily by fabric purchases and other production-related inputs, followed by fuel- and energy-related activities and upstream transportation and distribution. This result reflects the fact that our environmental footprint is largely concentrated in our supply chain rather than in our own operational facilities alone.

To improve the accuracy and completeness of future assessments, the Group is strengthening its data collection process and refining category-level methodologies. We will continue to enhance supplier engagement, improve the traceability of purchased materials, and progressively move toward more supplier-specific and activity-based data where feasible. These actions will help us better identify hotspots, prioritize reduction opportunities, and support more effective value chain emissions management.

Scope 3 greenhouse gas (GHG) emissions

Scope 3 Category		Emissions (tCO_2e)
Category 1	Purchased goods and services	8,985
Category 2	Capital goods	5
Category 3	Fuel- and energy-related activities (not included in scope 1 or scope 2)	52
Category 4	Upstream transportation and distribution	39
Category 5	Waste generated in operations	11
Category 6	Business travel	13
Category 7	Employee commuting	42
Category 8	Upstream leased assets	N/A
Category 9	Downstream transportation and distribution	N/A
Category 10	Processing of sold products	N/A
Category 11	Use of sold products	N/A
Category 12	End-of-life treatment of sold products	N/A
Category 13	Downstream leased assets	10
Category 14	Franchises	N/A
Category 15	Investment	N/A
Total Indirect (Scope 3) GHG emissions		9,157
Upstream Indirect (Scope 3) GHG emissions		9,147
Downstream Indirect (Scope 3) GHG emissions		10

Notes:

- Scope 3 emissions are reported in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Standard.
- Category 1 purchased goods and services includes emissions from purchased fabrics, trims, packaging materials, and production activities at our critical tier 1 supplier, the garment factories in the Philippines.
- Category 4 upstream transportation and distribution includes third-party logistics linked to inbound and outbound freight purchased by Sterling Group.
- Category 7 employee commuting is based on shuttle-bus commuting activity.
- Categories 8, 9, 10, 11, 12, 14, and 15 are not applicable to Sterling's current operating model.

WATER MANAGEMENT

Our operations do not include fabric processing or washing, which means water use during production remains minimal and is mainly limited to domestic needs within our facilities. In 2025/26, our total water consumption was 29,061 m^3, with a water intensity of 0.04 m^3 per piece produced.

To further promote responsible water management, we provide ongoing training for employees on water conservation and 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 packaging materials are essential for final packing and delivery processes, helping to ensure shipment reliability and product safety. The primary packaging material used is carton boxes. Most packaging specifications are determined by customers, which limits our influence over material selection.

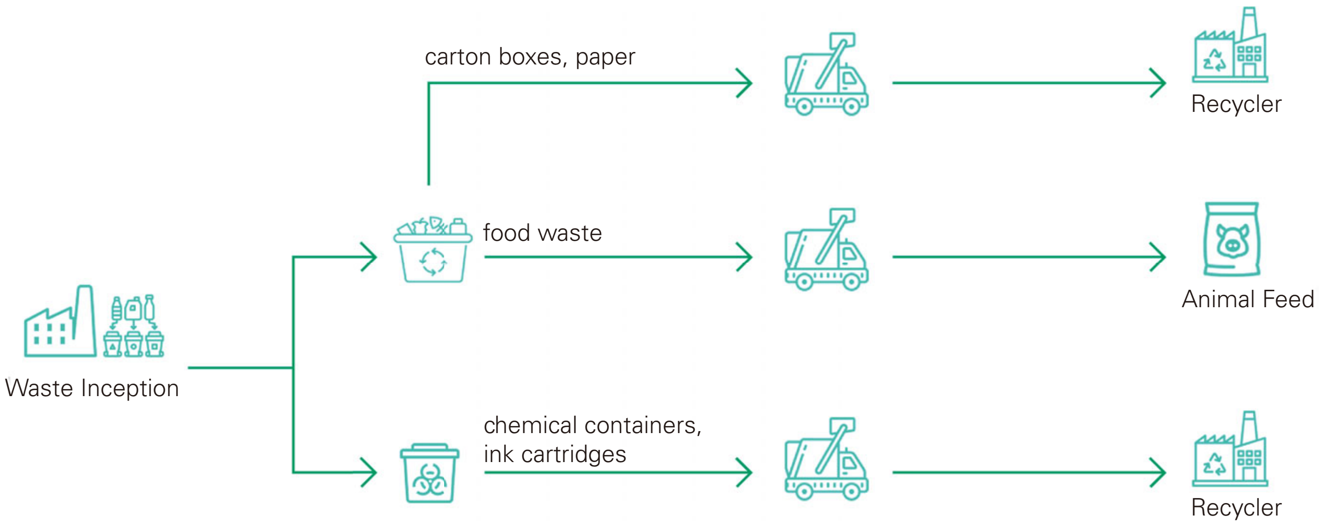
Our main priority is to comply with customer requirements while continuously seeking opportunities to minimize over-ordering, improve material handling practices, and reduce wastage. In 2025/26, total carton box consumption amounted to 95 tons.

WASTE MANAGEMENT

At Sterling Group, responsible waste management is an important part of our sustainability commitment. In our garment manufacturing operations, we generate both non-hazardous and hazardous waste and manage both streams to minimize environmental impact.

Our non-hazardous waste mainly consists of fabric scraps, carton boxes, paper, food waste, and plastic. In the reporting period, the total amount of non-hazardous waste generated was 133 tons. To divert waste from landfills, we work with third-party recycling partners and promote waste segregation and employee awareness across all facilities.

Hazardous waste, including chemical containers and ink cartridges, is handled and disposed of in accordance with applicable regulations. During the reporting period, hazardous waste amounted to 1 ton. We will continue to monitor waste performance and pursue ways to reduce waste generation.



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 use the Facility Environmental Module (FEM) to assess the environmental performance of our factories across key areas, including environmental management systems, energy use and greenhouse gas emissions, air emissions, water use and wastewater management, waste management, and chemicals management.

By using the Higg Index and its self-assessment questionnaire, we promote sustainability awareness and foster a culture of continuous improvement across our facilities. The tool helps us benchmark our environmental performance, identify areas for improvement, and set meaningful targets to align with industry best practices.

To ensure the reliability and accuracy of our assessments, we engage independent third-party audit firms to verify our FEM results. This verification process strengthens our factories' understanding of environmental regulations and ensures that our data collection methods remain consistent and standardized. Through the implementation of the Higg FEM program, we continue to strengthen our facilities and drive sustainability across our supply chain.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Governance

The governance of climate-related risks and opportunities at Sterling Group is overseen by both the Board of Directors and senior management. The Board holds ultimate responsibility for climate-related issues and ensures that climate-related goals are integrated into the Company's overall strategy. It regularly reviews progress against these goals and aligns them with broader business priorities. Senior management, through the Sterling Sustainability Committee (SSC), is responsible for implementing climate-related initiatives and embedding climate considerations into daily operations across the organization.

Strategy

Climate Scenario Analysis

Sterling Group has conducted climate scenario analysis to assess the resilience of its strategy and business model under different climate-related futures. The analysis uses the Intergovernmental Panel on Climate Change's Representative Concentration Pathways (RCPs) and Shared Socioeconomic Pathways (SSPs), which describe possible trajectories for emissions, policy, technology, and social development. We assessed short-, medium-, and long-term horizons, covering 2030, 2050, and 2100, to understand how climate-related risks and opportunities may evolve over time.

We considered two scenarios: SSP1 paired with RCP2.6, representing a sustainability-oriented, low-emissions future with strong climate action; and SSP3 paired with RCP8.5, representing a high-emissions future with weaker policy alignment and greater climate disruption. These scenarios support our understanding of potential physical and transition risks, as well as the strategic actions needed to strengthen resilience.

Scenario Summary

Scenario	Description	2030	2050	2100	Risk Profile
RCP2.6/SSP1	Sustainability-oriented pathway with strong mitigation, rapid low-carbon innovation, and higher demand for sustainable products.	+1.0°C	+1.5°C	+1.8°C	Low physical risks, high transition risks
RCP8.5/SSP3	High-emissions pathway with fragmented policy action, high fossil fuel dependence, and greater climate disruption.	+1.3°C	+2.5°C	+4.5°C	High physical risks, low transition risks

Climate-Related Risks and Opportunities

Physical Risks

Under the low-emissions scenario, the frequency and severity of extreme weather events such as typhoons and floods are expected to remain manageable. Our facilities in Sri Lanka and China may face short-term disruptions, but existing adaptation measures such as flood protection and emergency protocols are expected to remain effective. Under the high-emissions scenario, these events may become more frequent and severe, leading to longer production interruptions, greater supply chain vulnerability, and possible long-term infrastructure upgrades.

Rising temperatures may also affect worker productivity and health. Under SSP1, the impact is expected to remain moderate and manageable through energy-efficient cooling and adaptive work arrangements. Under SSP3, heat stress could significantly reduce productivity and increase safety risks, requiring stronger cooling systems and additional worker protection measures.

Water scarcity is another key chronic risk. In a lower-emissions future, water availability is expected to remain relatively stable, with efficiency and recycling measures supporting operations. In a higher-emissions future, water shortages could affect production continuity and require investment in alternative sources and water management infrastructure.

Transition Risks

Sterling Group anticipates that regulatory and policy changes may create both compliance obligations and strategic opportunities. Under the low-emissions scenario, the policy environment is expected to be more predictable, with clearer disclosure and carbon pricing requirements. Under the high-emissions scenario, regulations may become more fragmented and costly, increasing the risk of non-compliance and market access barriers.

Market demand and reputation are also important transition considerations. Demand for sustainable and low-carbon products is expected to increase under SSP1, supporting Sterling's ESG-related offerings. Under SSP3, cost pressure may increase and the premium for ESG products may narrow, while reputational risks could rise if climate adaptation is viewed as insufficient.

Technological change presents both opportunities and risks. In a low-emissions future, accelerated adoption of low-carbon and digital technologies may improve operational efficiency. In a high-emissions future, slower transition may increase the risk of technology obsolescence and competitive disadvantage if the Group does not keep pace with industry developments.

Opportunities

Climate change also creates opportunities for Sterling Group. Under a low-emissions pathway, we expect stronger demand for sustainable apparel, which supports our ESG positioning and customer relationships. Opportunities also exist in energy efficiency, process optimization, and digital solutions that can improve productivity and reduce emissions.

The transition to a low-carbon economy may also support product innovation, stronger stakeholder trust, and improved operational resilience. By investing in efficiency, traceability, and sustainable sourcing, Sterling Group can enhance its competitiveness while responding to evolving market expectations.

Risk and Opportunity Summary

Risk/Opportunity	RCP2.6/SSP1	RCP8.5/SSP3
Extreme weather events	Moderate, manageable with adaptation	Severe and frequent, may require major upgrades or relocation
Heat stress	Moderate, manageable through current investments	Productivity loss and need for enhanced cooling and protection
Water scarcity	Stable, manageable through efficiency and recycling	Severe shortages, requiring major infrastructure investment
Regulatory changes	Predictable and supportive	Fragmented, unpredictable, and higher-cost
Market demand	Growth in sustainable products and ESG premium	Cost-focused demand and reputational pressure
Technological change	Faster adoption and operational efficiency	Greater risk of obsolescence and disadvantage

Climate-Related Risks and Effects

Climate-Related Physical Risks

Type of risk	Climate-related risk	Effects on Sterling Group's business model	Effects along the value chain
Acute	Typhoons and floods affecting facilities in Sri Lanka and Guangzhou.	Plant closures, delivery delays, and higher inventory buffers.	Supplier disruption, port congestion, and shipment delays.
Chronic	Sea-level rise, flooding, heat stress, and water scarcity.	Asset impairment risk, flood-protection capex, productivity loss, and higher costs.	Higher insurance costs, lower upstream output, and supply delays.

Climate-Related Transition Risks

Type of risk	Climate-related risk	Effects on Sterling Group's business model	Effects along the value chain
Policy and Legal	Carbon pricing and HKEX/ IFRS S2 disclosure requirements.	Compliance costs, margin pressure, and investment in solar and efficient HVAC.	Suppliers may need verifiable carbon data; non-compliant mills risk deselection.
Market	U.S. buyers shifting to low-carbon apparel.	Growth in the premium "eco-woven" line, but volatility in conventional products.	Higher demand for recycled materials and expanded collection networks.
Technology	Need for modular, energy-efficient machinery.	Investment in low-carbon production upgrades.	Digital traceability across the yarn-to-garment chain; integration costs for smaller suppliers.
Reputation	Investor scrutiny on climate claims and ESG disclosures.	Risk of lost business if ESG claims are questioned.	Tier-2 suppliers may need auditable ESG metrics; non-compliant partners may be replaced.

Climate-Related Effects, Mitigation, Adaptation and Resilience

Sterling Group recognizes that climate change may affect both its own operations and its wider value chain through more frequent extreme weather events, rising temperatures, water scarcity, and evolving regulatory requirements. These risks may affect production continuity, worker health and productivity, logistics, supplier performance, and capital planning, particularly across our manufacturing facilities in Sri Lanka and China and our key upstream and downstream partners.

To manage these risks, the Group continues to strengthen mitigation and adaptation measures across its operations. Our mitigation efforts focus on energy efficiency, improved resource management, and stronger ESG governance, while our adaptation measures include flood preparedness, business continuity planning, infrastructure upgrades, and workforce protection measures such as cooling and health and safety support.

The Group's resilience depends on its ability to respond flexibly to changing physical and transition risks. Under a low-emissions pathway, our current strategy is generally aligned with market and regulatory developments; under a high-emissions pathway, we expect greater disruption and will need to accelerate adaptation, supplier engagement, and infrastructure investment. Significant uncertainty remains around the timing and severity of climate impacts, as well as policy changes, supplier readiness, and data completeness, particularly in Scope 3 emissions.

Risk Management

Climate-related risks are managed through Sterling Group's broader enterprise risk management framework, with oversight from the Board and implementation led by the SSC. Risks are assessed based on their likelihood and potential impact on operations, supply chain continuity, financial performance, and reputation. Mitigation actions are then prioritized based on their materiality and feasibility.

The Group's approach includes facility upgrades, ESG performance assessments, climate-related training, and enhanced reporting controls. These measures help strengthen resilience and support continuous improvement across the organization.

Metrics and Targets

Sterling Group monitors climate-related performance through key metrics including greenhouse gas emissions, energy consumption, water usage, and waste generation. Scope 1 and Scope 2 emissions are tracked annually, alongside operational energy and water consumption. These metrics help the Group measure progress, identify areas for improvement, and support strategic decision-making on climate-related issues.

PRODUCT RESPONSIBILITY

At Sterling Group, ensuring product quality and safety is a top priority. We are committed to meeting and consistently exceeding our customers' expectations in these areas. Product safety is taken seriously, and the majority of raw materials are specified by our customers. To ensure consistent quality, we have established a dedicated Quality Assurance team that oversees the production process from sample risk assessment and material selection to final garment assembly, with each stage closely monitored through our internal quality control system.

Respect for our customers' intellectual property and the protection of customer-provided personal and trade information are also core values at Sterling Group. We maintain systematic controls and handling procedures within our production facilities to safeguard licensed materials, while access to confidential information is carefully managed and all authorized personnel are required to uphold strict privacy standards.

During the reporting period, Sterling Group had no product recalls for safety or health reasons and received no complaints related to our products or services. There were also no incidents of non-compliance involving intellectual property rights, product responsibility, or data privacy, reflecting our ongoing 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 aware of the potential harm that hazardous substances in garment products can cause to both customers and the environment. To reduce these risks, we place strong emphasis on the careful sourcing and procurement of fabrics and trims, and we have taken proactive steps to mitigate the environmental impacts associated with chemical use in textile manufacturing.

We have implemented a Restricted Substances List (RSL) for all fabrics and trims, and our policy is aligned with AFIRM guidelines to ensure compliance with industry best practices. This policy sets out our expectations for material suppliers, including the restricted chemicals that must be avoided or minimized in finished garments. All suppliers are required to comply with our RSL requirements, and when non-compliance is identified, we promptly seek alternative sources. The procurement process is overseen by our dedicated purchasing department, which reports directly to senior management.

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

People – Social Responsibility

LABOUR PRACTICES

At Sterling Group, we are committed to upholding a strong code of conduct and corporate values that promote and protect human rights. We do not tolerate child labour or forced labour and have established a robust hiring system to prevent such practices. To strengthen awareness and accountability, we provide targeted education and guidance to help decision-makers identify and address human rights risks effectively.

We also promote responsible practices across our supply chain through a responsible sourcing program covering key suppliers, supported by on-site social compliance audits to verify compliance with our standards. In addition, we maintain a workplace free from discrimination and prohibit unfair treatment on the basis of race, age, gender, or sexual orientation. During the reporting period, there were no instances of non-compliance with relevant labour laws, including requirements on wages, benefits, and working hours.

WORKFORCE STRUCTURE AND EMPLOYEES TURNOVER RATE

Sterling Group is committed to providing stakeholders with a clear understanding of our operational workforce composition and turnover trends. Transparency on workforce structure helps us support an inclusive and diverse environment while monitoring areas that may require attention. During the reporting period, the overall employee turnover rate was 33%, which provides useful insight into workforce stability and supports our ongoing efforts to build a committed and engaged team.

Workforce Structure		
Gender of Employees	Male	247
	Female	743
Age Group of Employees	18 to 30	202
	31 to 40	246
	41 to 50	359
	more than 50	183
Geographical Location	Sri Lanka	858
	China	132

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

Employee Turnover		
Gender of Employees	Male	31%
	Female	34%
Age Group of Employees	18 to 30	59%
	31 to 40	35%
	41 to 50	20%
	more than 50	26%
Geographical Location	Sri Lanka	33%
	China	34%

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 objective is to maintain a safe, productive, and high-quality working environment that protects our workforce from potential hazards and injuries. We provide comprehensive safety training to all staff, equip our facilities with appropriate safety equipment, and continuously work toward a zero-accident workplace.

Over the past three years, including the current reporting period, Sterling Group has recorded no work-related fatalities. However, total lost days due to work-related injuries amounted to 98 days during the reporting period. Each factory within the Group employs qualified health and safety officers who conduct regular on-site assessments, monitor working conditions, verify equipment and machinery, and ensure compliance with safety protocols. Through these proactive measures, we continue to strengthen workplace safety and protect our employees across all operations.

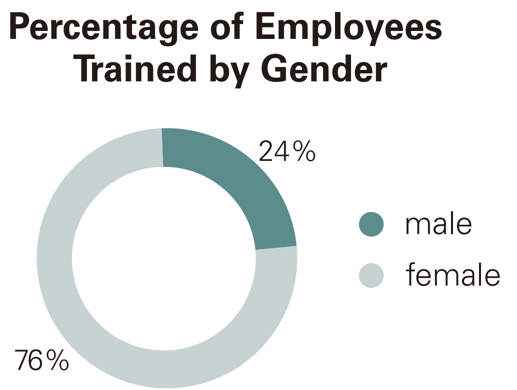
TRAINING AND DEVELOPMENT

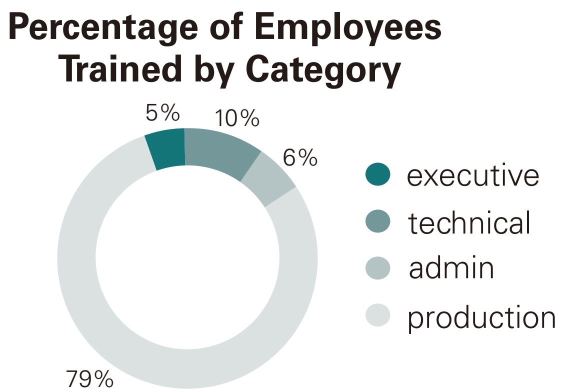
At Sterling Group, we recognize that strong technical expertise and the consistent production of high-quality products are essential to our continued success. To support sustainability and drive continuous improvement, we invest in our employees through on-the-job and external training programmes that enhance performance, motivation, productivity, and production skills.

Average Training Hours

Category	Average training hours
Male	2.1
Female	5
Executive	1.5
Technical	1.4
Administrative	3.6
Production	2

Employees Trained





Overall, total training delivered across the Group exceeded 1,800 hours. Through these learning opportunities, we aim to equip our employees with the knowledge and skills needed to meet evolving industry demands and maintain the highest standards of quality and performance.

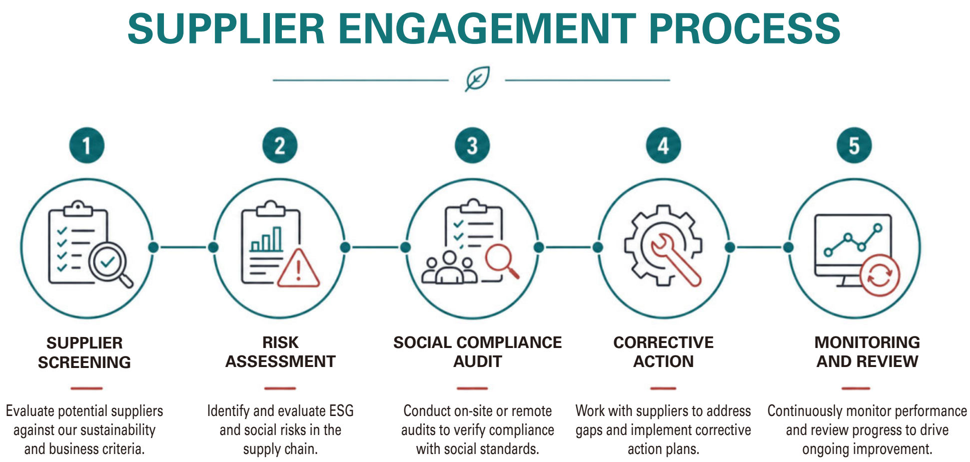
SUPPLY CHAIN MANAGEMENT

Supply Chain Management Strategy

Effective supplier management is fundamental to Sterling Group's business success, particularly as our operations expand geographically and our supplier base grows. To reduce the risk of supply chain disruptions that could affect financial performance and reputation, we take a strategic approach and allocate additional resources to managing 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 located in the Philippines. As this supplier plays an important role in the completion of our final products, it is subject to 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 support this process, we use a grading system that guides our supply chain analysis and serves as a management tool for assessing overall supplier performance.



Our supplier engagement process includes the implementation of the Sterling Group Responsible Sourcing Policy, supplier self-assessments, on-site social compliance audits and gap analyses, supplier capacity-building and educational programmes, and remediation of any identified non-conformances. A dedicated Compliance team oversees these activities, ensuring that our standards are clearly communicated and that audits are conducted to verify compliance. The team reports directly to senior management, including the Board of Directors, helping maintain transparency and open communication. Through these efforts, we provide assurance to customers and stakeholders that our products are manufactured ethically and sustainably.

Responsible Sourcing and Risk Management

In line with the Sterling Group Responsible Sourcing Policy, we have established a structured framework to monitor and manage our garment suppliers. This framework includes supplier self-assessments and on-site social compliance audits to improve visibility into employment practices, identify ethical sourcing risks, address non-conformances, and support supplier capability development.

Suppliers are required to remediate identified non-conformances within a timeframe proportionate to the seriousness of the issue. We work closely with suppliers to develop corrective action plans and conduct desktop reviews or on-site verifications to confirm implementation and effectiveness. Sterling Group maintains a strict Zero Tolerance Policy for severe violations, including child labour, forced labour, discrimination, harassment, and any immediate threat to health and safety.

We identified one critical supplier located in the Philippines. The environmental and social risks associated with our supply chain include pollution from hazardous chemicals and poor waste management, inefficient use of energy and water, deforestation risks linked to raw material sourcing, labour rights concerns, health and safety shortcomings, worker exploitation, and discrimination or harassment in subcontracted factories.

Environmental Risks	Social Risks
• Pollution from hazardous chemicals, improper waste disposal, or inadequate environmental management 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	• Labour rights issues such as fair wages, working hours, safe conditions, and prevention of forced or child labour • 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 • Discrimination and harassment based on gender, race, or other factors within subcontracted factories

WRAP CERTIFICATION AND COMMITMENT TO RESPONSIBLE MANUFACTURING

Sterling Group is proud that our Sri Lanka factories, Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd., have maintained certification under the Worldwide Responsible Accredited Production (WRAP) program for several years. This reflects our long-standing commitment to ethical, responsible, and sustainable manufacturing. WRAP is an independent, non-profit organization that promotes corporate social responsibility in factories worldwide.

The certificate of compliance demonstrates our continued compliance with WRAP's 12 core principles, which are based on internationally recognized workplace standards and cover areas such as human resources management, health and safety, environmental stewardship, legal compliance, and security. Our ongoing adherence to these standards reflects our commitment to providing a safe, fair, and sustainable workplace, while strengthening our reputation as a responsible manufacturer that meets and exceeds global expectations for ethical production.


Certificate of Compliance
Chiefway Katunayake (Pvt) Ltd.
WRAP # 14437
LEVEL Gold
CERTIFICATION PERIOD November 24, 2025 to November 24, 2026
SAMPLE SIZE 30
AVERAGE WEEKLY HOURS IN PERIODS REVIEWED
November 2024:59
May 2025:56
September 2025:55
PRODUCTION PROCESSES Raw Material, Accessories, Cutting, Fusing, Sewing, Quality Inspection, Ironing, Pressing, Finishing, Packing & Finished Goods
FACILITY ADDRESS Ring Road 3, Phase 2, EPZ, Katunayake, Sri Lanka
Avedis H. Seferian
PRESIDENT & CEO
Holly Wise
CHAIR
Certified Facility


Certificate of Compliance
Chiefway (Pvt) Ltd
WRAP # 14952
CERTIFICATION PERIOD May 05, 2026 to May 05, 2027
SAMPLE SIZE 25
AVERAGE WEEKLY HOURS IN PERIODS REVIEWED
February 2026: 59
November 2025: 57
May 2025: 57
PRODUCTION PROCESSES Cutting, Sewing, Quality inspection, Ironing & Packing
FACILITY ADDRESS No. 549 Attigala Road Meegoda, Sri Lanka
Avedis H. Seferian
PRESIDENT & CEO
Holly Wise
CHAIR
Certified Facility

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 actively participated in the Sedex Members Ethical Trade Audit (SMETA), a globally recognized audit framework that benchmarks ethical business conduct and responsible manufacturing.

SMETA provides a comprehensive assessment of key areas such as labor conditions, occupational health and safety, environmental management, and ethical business practices. By working with reputable third-party audit firms and carrying out regular SMETA audits, we independently evaluate our performance, strengthen our operations, and continue improving our commitment to protecting workers' rights, promoting safe and healthy workplaces, safeguarding the environment, and maintaining integrity in all business dealings.

CODE OF CONDUCT AND ANTI-CORRUPTION

At Sterling Group, our Code of Conduct, Anti-corruption Policy, and related policies set clear expectations and standards for all employees. These policies emphasize honesty, fairness, compliance with laws and Company requirements, and the duty to report any suspected violations. To support these policies, all employees receive relevant training to help them identify, prevent, and report any form of bribery or corruption. Training is provided when employees join the Company and is refreshed as needed to ensure everyone remains up to date on best practices and Company expectations.

Our Anti-corruption Policy strictly prohibits all forms of corruption and misconduct. It provides employees and business partners with practical guidance on recognizing and responding to bribery or corruption, and any breach by employees may result in disciplinary action, including dismissal. Violations by business associates may lead to contract termination or legal proceedings. During the reporting period, there were no cases of litigation or allegations of corruption.

To further reinforce ethical conduct, management has established authorization procedures to address and manage potential conflicts of interest. These procedures provide a strong system of checks and balances, with enhanced oversight for high-value transactions. Through these comprehensive policies and procedures, Sterling Group demonstrates its commitment to integrity, transparency, mutual respect, and the prevention of corruption.

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 take part in a range of local initiatives designed to support people in need and strengthen positive relationships within the community.

In China, employees have participated in activities such as visiting families requiring assistance and making donations to help meet immediate needs. The Group also received accreditation as a Caring Enterprise in 2024, reflecting our continued commitment to community involvement and social contribution.

In Sri Lanka, our factories donated furniture to a local school, supporting educational development and demonstrating our ongoing commitment to community well-being. Through these efforts, Sterling Group aims to contribute meaningfully to the welfare of the communities connected to our operations.

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