



# 2023

## Environmental, Social & Governance Report

Stella International Holdings Limited

Stock Code: 1836



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# PREFACE

## LETTER FROM CEO

As we embark on the unveiling of our second standalone ESG report for the fiscal year 2023, I am reminded of the significant decision we made in 2022 with the release of our inaugural ESG report. It marked a pivotal moment in our commitment to transparency, sustainability, and stakeholder engagement.

Before we delve into the notable progress we have made, I would like to acknowledge the inherent challenges and complexities that come with the traditional nature of our business. Over the past year, we gained deep understanding that embracing sustainability requires more than just commitment; it is a transformative journey that necessitates us to rethink established practices and innovate with new solutions. From navigating supply chain intricacies to rethinking conventional production processes, effecting change in a traditionally structured sector calls for patience, partnership, and collaboration. Therefore, I would like to extend my heartfelt gratitude to each member of the Stella Group family for their dedication and contributions to our shared vision.

In 2022, we also established the four sustainability development goals for Stella Group: building green and low-carbon factories, fostering a diversified community, enhancing supply chain resilience, and achieving smart operations. Since then, all our sustainability efforts have been centred around these ambitious goals. Here are some of the environmental progress highlights from the fiscal year 2023:

- Our renewable energy infrastructure, focusing on rooftop solar PV systems, has reached a total installed capacity of 19.84 MW, with further installations planned for 2024. This infrastructure is estimated to replace approximately 6% of the group's annual energy consumption.
- Our commitment to energy efficiency has led to a significant year-on-year reduction of over 12,000 megawatt-hours through measures such as strategic equipment upgrades and replacements.
- We have initiated a Group-wide Scope 1-3 carbon inventory, adhering to the stringent standards of ISO 14064, to help us more proactively manage our carbon footprint across the value chain, and ensure transparent reporting.
- By optimising our production processes meticulously, we have successfully reduced over 75 tonnes of waste. Our year-on-year use of packaging materials also reduced by a significant 3,733 tonnes through efforts such as collaboration with packaging partners.
- Through regular monitoring and analysis, we were able to identify water consumption anomalies at two of our factories in early 2023. Following in-depth leak check and repairs of underground pipelines, we were able to reduce the average water usage by around 20% in both factories.
- To enhance monitoring and transparency of our environmental efforts, 83% of Stella's footwear factories have adopted the Higg Facility Environmental Module (Higg FEM).

At the core of our business lies our people, who are the driving force behind our success. We take immense pride in our diverse and inclusive workforce and remain committed to fostering an environment where every individual, irrespective of gender, can flourish and contribute to our collective achievements. Here are some key highlights regarding our community in FY23:

- Our workforce comprises an impressive 80% representation of females, with a significant number holding leadership positions.
- We have empowered our employees through various training and development programmes, totalling 956,703 hours of training in 2023.
- In addition to our internal employee and community care initiatives, we have collaborated with our brand partners and local organisations in various impactful projects such as coastal clean-ups, tree planting, earth hour, feeding programmes, and Brigada Eskwela.
- 66% of Stella's footwear factories have embraced the Higg Facility Social and Labor Module (Higg FSLM) and the Social & Labor Convergence Program (SLCP).

In the realm of smart operations, Stella Group places a strong emphasis on efficiency as a cornerstone of sustainability, recognising the pivotal role that technology plays in realising this goal. We actively explore digital solutions and pilot programmes geared towards enhancing operational intelligence and effectiveness while preserving the excellence of our workmanship. Among the initiatives introduced in 2023 are an ESG Data Platform, serving as a centralised hub for ESG data gathering and visualisation, enabling the customisation of ESG metrics and facilitating performance tracking across our facilities. Additionally, our Cloud Inspection System empowers management with remote, real-time oversight of production line performance, fostering agile decision-making and heightened operational transparency.

While we celebrate the progress made, we recognise there are still many more challenges that lie ahead on our transformation journey. However, we view these challenges not as obstacles but as opportunities to drive positive change as we navigate this path together. I am confident that our collective efforts will not only transform our company but also contribute to a broader shift in the industry towards more sustainable and responsible practices.

Thank you for being an integral part of our journey. I am optimistic that our continued dedication will inspire meaningful change in the world, and I look forward to sharing more positive progress with you in the future.

**CHI LO-JEN**

**Chief Executive Officer**

*20 March 2024*

# HIGHLIGHTS FOR 2023

## FINANCIAL PERFORMANCE

REVENUE	SHIPMENT VOLUME	AVERAGE SELLING PRICE (ASP)
<b>\$1,492.7mn</b>	<b>49mn pairs</b>	<b>+4.2%</b>
GROSS PROFIT MARGIN	ADJUSTED NET PROFIT**	NET CASH
<b>24.6%</b> +300 bps	<b>\$147.6mn</b> +23.5%	<b>\$287.4mn</b>
OPERATING PROFIT* MARGIN	ENHANCED	
<b>10.7%</b> +240 bps	<b>Customer Portfolio</b>	

## SUSTAINABILITY HIGHLIGHTS

		
<b>19.84 MW</b> total installed capacity of rooftop solar panel	<b>9,613 MWh</b> renewable energy generation, equivalent to reducing over <b>4,600 tonnes CO<sub>2e</sub></b>	<b>12,000 MWh</b> YoY Energy consumption reduction
		
<b>3,700 tonnes</b> YoY packaging materials reduction	<b>83%</b> of Stella's footwear factories adopted Higg FEM	

## AWARDS & RECOGNITION

<b>Best Employer to Work for</b> in Asia for the 3rd consecutive year	<b>Stable Employment Award</b> received for factory in Hunan, China
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All financial figures are denominated in USD unless otherwise specified

\* Reported operating profit is the Group's operating profit before changes in fair value of financial instruments

\*\* Adjusted net profit excluded net fair value loss related to the Group's investment in Larvin Group

## ESG STRATEGY

This report commemorates a remarkable year in the Environmental, Social, and Governance (ESG) and digital advancement journey of Stella International Holdings Limited in 2023. We incorporated ESG principles into our operations with the development of smart interfaces to synchronise ESG concepts with our strategic development. Smart technology plays a pivotal role in facilitating operational management and production processes, while sustainable energy adoption addresses growing concerns about climate risks. Adjustments in our people management approach aim to enhance our overall ESG performance.

Our “One Stella, Smart Stella” sustainable development blueprint aligns with our values of “caring, cooperation, and innovation.” This mindset keeps us focused on producing excellent products to meet our brand partner’s standards for quality, advancing our quest for perfection. With Smart Stella at the strategic core and continuous deployment and better adoption of digital management tools, we expand the scope for ESG management enhancement, to better address material issues in our supply chain and business practices.

Public expectations have evolved, necessitating companies to take decisive ESG actions. Stella, as a responsible corporate citizen, recognises the importance of such actions and has taken substantial measures to encourage sustainable and ethical business practices. This report is dedicated to four core pillars:



It underscores our commitment to advancing sustainable, socially responsible, and well-governed business practices. By disclosing under these pillars, we offer a comprehensive overview of our ESG efforts and achievements, providing stakeholders a valuable reference for evaluating our business practices.

ESG challenges span people, the environment, operations, and business ethics. Proactive management across the value chain is vital for protecting the Group and sustaining our reputation. Digital tools for optimal management have been developed to address these challenges, bridging the information gap and improving Stella’s decision-making efficacy.

Stella appreciates our unique position in the footwear industry and as steward of our communities, we will continue to analyse potential challenges and strive to create long-term value in our operations. This report gives us the opportunity to revisit our sustainability journey in 2023 and outlines our ambitions for achieving sustainable business practices in the next couple of years.

**2023 SUSTAINABILITY INITIATIVES**

**STELLA'S SUSTAINABILITY DEVELOPMENT GOALS**

**NEW & EXISTING INITIATIVES**

**1. CREATE A DIVERSIFIED COMMUNITY**

With operations spanning five different countries, we recognise the richness of diversity inherent to our global community. People are at the heart of our operations. We are dedicated to fostering a workplace where diversity thrives and ensuring that our people are working in a safe and healthy environment with diversified learning and development opportunities.

- 1. TVOCs Monitoring programme
- 2. Workplace Safety Enhancement Projects

**2. GREEN AND LOW CARBON MANUFACTURING**

We recognise the traditional nature of our industry and the potential environmental impact it carries. Our commitment to building Green and Low Carbon factories signifies our dedication to playing an active part in the global fight against environmental challenges. Our low carbon transformation journey starts from advocating resource conservation, emission reduction and enhancing resource efficiency.

- 1. ISO 14064 & Carbon Inventory
- 2. Waste Reduction programmes
- 3. Energy Efficiency programmes

**3. BUILD A RESILIENT SUPPLY CHAIN**

We firmly believe that a resilient supply chain requires not just efficiency but also good ESG practices to mitigate risks. We will continue to foster strong and collaborative relationships, and communicate and integrate ESG principles to ensure the sustainability and ethical integrity of our supply chain.

- 1. New Supplier E&S Scoring system and onsite audit
- 2. Scope 1 - 3 carbon inventory
- 3. Enhanced supplier engagement

**4. ACHIEVE SMART OPERATION**

Leveraging digital solutions to enhance operational efficiency and effectiveness, while preserving the artistry of our craft. Through the integration of technology into our work processes and the establishment of a robust digital infrastructure, we want to empower ourselves to work smarter, more efficiently, and make precise decisions rooted in scientific insights and data.

- 1. Internet of Equipment (IOE) programme
- 2. Group ESG Data Platform

## SUSTAINABILITY GOVERNANCE

### BOARD STATEMENT

To enhance the Group's ESG management, we have implemented a robust sustainability governance structure, overseen by the Board and actively executed by all Stella employees. The Board plays a pivotal role in providing governance and strategic direction for ESG-related matters within the Group. It closely monitors the integration of ESG initiatives into our strategic development, risk management procedures, and business management processes. This includes regular assessments and monitoring of ESG-related targets, ensuring alignment with our overall business objectives. In 2023, a strategic enhancement was implemented in the Key Performance Indicators (KPIs) for team leaders and senior leadership roles. This modification incorporated a specific proportion dedicated to ESG criteria, which aligned with the group's ESG target. In addition, the Board takes a proactive stance in overseeing various ESG matters, including the review and confirmation of the identification and prioritisation of material ESG topics. To facilitate this oversight, the Corporate Governance Committee is entrusted with the responsibility to monitor and evaluate the Group's ESG practices and policies. The Committee receives updates on ESG issues through the cross-departmental Sustainability Development Committee. This committee ensures that ESG initiatives are well-formulated and executed to address the concerns raised by the Corporate Governance Committee.

The Group's approach to ESG is dynamic, with measures developed and executed based on the assessed materiality of specific ESG issues. These actions are transparently disclosed in our ESG Report, providing stakeholders with valuable insights into our sustainability efforts. For detailed information on the process and results of materiality analysis, stakeholder engagement, and peer benchmarking conducted during the Reporting Period, please refer to the "Material ESG Topics" section of this Report.

Our overarching "One Stella, Smart Stella" vision encapsulates our commitment to addressing material issues by integrating considerations from diverse areas, including people, the environment, operations, and ethical concerns. This vision guides our decision-making processes at all levels of the organisation, reflecting our dedication to responsible and sustainable business practices.

**CORPORATE GOVERNANCE STRUCTURE AND MANAGEMENT OF ESG**



<p>Board of Directors</p>	<p>The Board is the governing body of the Group. It establishes the Group’s mission, values and strategy, and provides oversight on ESG and ethical issues. It also ensures that the Group’s culture is aligned with its values.</p> <p>The Board assumes collective responsibility for its leadership and control and promotes the Group’s success making decisions objectively in the best interests of the Group.</p>
<p>Corporate Governance Committee</p>	<p>The CG committee is responsible for the monitoring and evaluation of the Group’s ESG policies and procedures in relation to ESG-related issues. The CG committee is also responsible for monitoring the progress of ESG-related targets. The Board will receive regular updates from the CG Committee to facilitate their decision-making process.</p>
<p>Sustainability Development Committee</p>	<p>The cross-departmental Sustainability Development Committee is tasked with aiding the implementation of ESG initiatives and reporting ESG performance and associated concerns to the Corporate Governance Committee. The working group is also responsible for updating improvement activities, increasing relevant knowledge and capacity of representatives of departments, and promoting future ESG-related projects initiated by the Sustainability Development Office.</p>
<p>Sustainability Development Office</p>	<p>The Sustainability Development Office is tasked with crafting the Group’s sustainability development policies, and driving internal change management to align with brand customer expectations for ESG integration and digitalisation. This involves setting clear ESG targets, designing strategies for sustainable practices and technological enhancements, and planning actionable steps for implementation. The SD office will monitor Group’s ESG performance, foster understanding of improvement areas, and support capacity building, ensuring that initiatives align with the latest regulatory and industry trends.</p>
<p>Factories and Division Offices</p>	<p>The factories and other division offices will implement management’s initiatives on ESG related matters, record and report the achievement and understand the implication of data collection. In addition, all factories and division offices operate in accordance with the Group’s sustainability policies.</p>

## **SUSTAINABILITY DEVELOPMENT CAPACITY**

The establishment of a cross-departmental ESG Working Committee underscores our dedication to fostering collaboration and synergy within Stella, significantly enhancing our sustainability development capacity. Led by the Chief Executive Officer, the ESG Working Committee assembles representatives from various departments, leveraging their diverse expertise to ensure a comprehensive approach to ESG matters.

The active involvement of the Chief Executive Officer in leading this committee not only underscores the organisation's commitment but also sets a tone of responsibility from top management, assuring our commitment to uphold ESG principles as integral components of our business strategy.

This committee plays a pivotal role in regularly reviewing and updating the materiality matrix, ensuring that Stella remains responsive to the evolving landscape of ESG trends, allowing us to proactively address emerging challenges and opportunities.

Through this commitment, the ESG Working Committee significantly bolsters Stella's capacity to implement ESG initiatives effectively. The collaborative synergy among its members, exemplifies our united approach towards achieving our sustainability development goals. This collective effort not only strengthens our internal processes but also contributes to fostering positive outcomes for our organisation and the communities we serve.

## **UPHOLDING BUSINESS ETHICS**

Stella is committed to maintaining a fair and equitable business environment, protecting the interests of the Group, inheriting and developing the Group's traditional corporate culture and reducing the Group's operational risks, whilst maintaining the reputation of the Group and our brand customers. During the Reporting Period, there was no non-compliance case in relation to anti-corruption-related laws and regulations.

**COVERAGE OF STELLA’S CODE OF BUSINESS ETHICS**



The Group adopts a zero-tolerance approach on corruption and bribery. The Anti-Corruption and Anti-Bribery Code of Conduct intends to encourage anti-corruption and anti-bribery efforts in operations, enhance staff ethics, and prohibit unethical conduct. The Code of Conduct applies to all business operations, including communication with authorities, commercial negotiations with clients, the procurement of raw materials, and the development of projects. In the event of a violation, the case will be examined, and disciplinary action will be taken. The employment agreement may be terminated if required.

In addition, we assess the clarity and appropriateness of the payment terms and commission provisions in each of the agreements with our factories, agencies and business partners to reduce the risk of fraud and money laundering. Our employees are obliged to be well-versed in policies related to anti-money-laundering.

## ANTI-CORRUPTION AND ANTI-BRIBERY CODE OF CONDUCT – HIGHLIGHTS<sup>1</sup>

**Objective:** The Anti-Corruption and Anti-Bribery Code of Conduct is formulated by the Group HR Department in order to promote anti-corruption and anti-bribery work in business activities, strengthen employee ethics, and have a correct understanding and handling of conflicts of interest.

**Scope:** All factories managed by the Group and customers, suppliers, service providers, and contractors that have business relationship with the Group shall follow the policy.

All business activities or external contacts of the group, including but not limited to activities such as contacts with government departments, business negotiations with customer business representatives, fair product procurement, and project implementation, shall follow the policy.

**Summary:** We aim to strengthen the internal control on ethics, provide guidance to Group's employees and related interest groups (customers, suppliers, etc.) to act in accordance with the law, establish an honest and trustworthy corporate image, and prevent unethical behaviours. Various measures are implemented, including:

- To prohibit unethical acts in commercial activities, such as giving cash or items to counterparties in the form of a bonus, giving money or anything of value to seek business opportunities, providing sponsorship that violate the principle of fair competition etc.;
- To address conflicts of interest, stakeholder relationships, family members and effects,
- To address issues associated with handling of gifts and entertainment;
- To address issues associated with competition and fair dealing; and
- setting up procedures in escalation, declaration or reporting bribery and corruption cases.

Our expectations on business ethics are also stated in the Employee Handbook, which all new hires in factories and corporate offices are expected to review and make consent. To enhance our employees' awareness on business ethics, we organise training programmes and meetings on business ethics such as anti-corruption and conflict of interest for all our employees regularly. During the Reporting Period, 100% of our employees completed the assigned Code of Business Conduct training. All new joiners are required to attend our new-hired employee training on business ethics, and we have incorporated a post-training assessment to ensure that they have thorough understanding of the training materials. The training course on Code of Integrity Management was held for all levels of employees including senior management for 29,852 hours in total during 2023.

<sup>1</sup> The Policy is extracted partially for disclosure purpose.

## **PROMOTING FAIR COMPETITION**

We place a high value on our sense of honesty and integrity and monitor the compliance status to applicable laws, regulations and industry standards among factories on a regular basis. The Anti-Corruption and Anti-Bribery Code of Conduct applies to our suppliers as well. Each of our suppliers has to sign the Anti-Gifts Compliance Agreement.

We incorporate corporate social responsibility training into new employee orientation. We have also established guidelines for accepting and giving gifts to ensure issues with conflict of interest and business ethics are being handled with care. We renounce any type of bribery or receiving bribes in exchange for economic advantages, as well as coercion or threats to achieve benefits. For gifts exceeding a specific monetary value, employees must report and hand over to the direct supervisor or department head.

According to the Group's Code of Conduct, employees are obligated to put the Group's interests ahead of their own and social relationship should not compromise their professional judgement, decisions, or actions in the workplace.

## **COMMUNICATION CHANNELS**

The Group has formulated Whistleblowing Measures to effectively prevent operation and management risks by encouraging our staff to report any malpractice and management loopholes, includes but not limited to:

- Behaviours that violate the Group's system, regulatory policies and relevant laws and regulations in business operation;
- Other behaviours that will cause economic and reputation loss to the Group;
- Black-box operations that violate the principles of openness and fairness in the recruitment of employees and promotions;
- Vulnerabilities and hidden dangers in security work, bribery, extortion, fraud and money laundering; and
- Misbehaviour that violates the Group's standards in accordance with the Code of Conduct and Employee Handbook.

### WHISTLEBLOWING SYSTEM

Group Human Resources Department	Review relevant regulations and develop internal reporting system for whistleblowing
Factories and Regional Offices	Regularly publicise and inform the employees about internal reporting system and procedures
Employees	Report the suspected cases of misbehaviour

Employees are encouraged to report the suspected cases of misbehaviour including discrimination, corruption, fraud, dishonesty or unlawful conduct via any channel they prefer including the official reporting email and/or reporting hotline. The Group takes these reports seriously and provides timely responses to them. Upon the receipt of reports, the Internal Audit Department will work with Human Resource Department to conduct independent investigations. If necessary, remedial measures will be taken against people with accountability. The Policy provides whistle-blowers with protection from retaliation. We assure employees that whistleblowing cases received are treated in strict confidence, and no whistle-blower would be victimised or be unfairly treated for making a complaint.

CREATE  
A DIVERSIFIED  
COMMUNITY

Stella believes that passionate and committed employees are essential to the Group's sustainable growth. As a responsible employer, we strive to cultivate a dynamic, harmonious, and all-inclusive working environment where our employees feel appreciated and respected. We want to foster a long term and collaborative relationship with our employees and have devoted resources towards their welfare and career progression. We work beyond compliance requirements in the countries we operate<sup>2</sup> in, and established mechanism to review and improve employees' welfares to ensure our employees can enjoy statutory benefits and other non-compensation welfares. During the Reporting Period, there was no non-compliance case in relation to labour laws and regulations in respect of compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Highlights

Total employees	Percentage of trained employees
<b>39,850</b>	<b>98%</b>
Percentage of female employees	Average training hours
<b>80%</b>	<b>19.2</b> Hours

Employer awards

**Best Employer to Work for in Asia**  
for the third consecutive year

**Stable Employment Award**  
received for factory in Hunan, China

<sup>2</sup> The Group complies rules in accordance with the operation location includes Labour Law of the People's Republic of China, Provisions on Prohibition of Using Child Labour, Bangladesh EPZ Labour Act (2019), Bangladesh Labour Act (2006), Indonesia Labour Law-Act 13 (2003), Vietnam Labour Code (No. 45/2019/QH14).

## LABOUR AND HUMAN RIGHTS

### RECRUITMENT

Stella prepared the internal Social Responsibility Management Manual with reference to the SA8000 certification standards. SA8000 is based on the principles of international human rights norms as described in International Labour Organisation Conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights, including health and safety, freedom of association, working hours and wage standards, the prohibition of child labour and the protection of minors, the prohibition of forced labour, the prohibition of discrimination, the prohibition of unfair punishment, and so forth.

Stella upholds the principle of equality, objectiveness, and focuses on diverse talent development. During the recruitment process, we treat all our candidates in an open and fair manner, providing equal opportunities for everyone regardless of age, gender or gender reassignment, sex or sexual orientation, marital or family status, disability, race (including ethnic origin or nationality), and religious or political beliefs. To ensure full compliance with the relevant laws and regulations, the recruitment procedure is guided by the Group’s Hiring Policy & Procedures which are regularly reviewed and updated in accordance with the latest industry practices and regulatory updates.

### STELLA’S EMPLOYEE MANAGEMENT PRINCIPLES

 <p><b>Compliance with Local Laws &amp; Regulations</b></p>	 <p><b>Anti-Harassment &amp; Zero Abuse</b></p>	 <p><b>No Child Labour</b></p>
 <p><b>Anti-Discrimination &amp; No Forced Labour</b></p>	 <p><b>Guaranteed Minimum Wage or Above</b></p>	 <p><b>Not Exceeding the Maximum Working Hours</b></p>
 <p><b>Freedom of Association &amp; Collective Bargaining</b></p>	 <p><b>Guaranteed Minimum Wage or Above</b></p>	 <p><b>Environment, Health and Safety</b></p>

The Group engages in open recruitment and adheres to market-based employment practices. To recruit talents, we utilise both online and offline channels like university graduate recruitment programmes, online talent acquisition platform, internal recruitment, and head-hunter referrals, etc. To attract qualified candidates, we continuously implemented a referral programme and return-to-work programme, awarding employees with a referral incentive upon successful on-boarding.

Our HR team introduced a new talent programme called “Beyond Star Management Associate Programme” (MA programme) during the reporting year. This programme was launched with the aim to seek and attracts young talents from outside the footwear manufacturing industry in an effort to help with the industry challenge of losing talents, inject new blood and fresh thinking into the industry, and further promote sustainable development of our company and business. This programme offers young talent with rotational opportunities across various functions within the Group, complemented by continuous mentorship and coaching for career development. In this inaugural year of the MA programme, we successfully onboarded 6 Management Associates into the Stella Group family. Under this talent scheme, we will continue to recruit promising young talents from across all of our operating regions.



MA Programme Introduction Session and Induction of Management Associates

Our support for work-life balance has been communicated to all new hires during orientation workshops. The HR department is responsible for training employees on the relevant working hour policies. In the event of overtime work, we provide overtime compensation in accordance with applicable local labour regulations.

**REMUNERATION**

The Group seeks to provide competitive remuneration packages and clear career paths for our employees. A compensation structure is established based on job duties, knowledge and experiences to efficiently mobilise the work force and advance the Group’s strategic objectives.

As a business operating on a regional scale, our remuneration system is continually evaluated in accordance with the local government decree, industry and regional standards, as well as market circumstances. In addition to basic salary, Stella has established a performance-based incentive pay structure that covers all employees, with the primary goal of recognising employees’ performance and commitment to the Group, and of retaining and motivating skilled and experienced employees to work towards the Group’s prospective growth and expansion.

Additionally, we have introduced the Employee Loyalty and Service Recognition Award in the Philippines as an expression of gratitude to our employees who have dedicated five or more years to the company. Furthermore, employees who served for ten or more years at Longchuan Factory in China have been acknowledged and presented with gifts.

<b>PERCENTAGE OF EMPLOYEE SERVED OVER 5 YEARS</b>			
	<b>5-10 years</b>	<b>10-20 years</b>	<b>20 years &amp; above</b>
<b>General employee</b>	23.9%	18.9%	1.6%
<b>Middle-level management</b>	13.0%	19.1%	36.8%
<b>Senior management</b>	12.0%	4.0%	48.0%



Employee’s Loyalty and Service Recognition Award Night

## **HOLIDAYS, WELFARE AND BENEFITS**

We cultivate a strong sense of belonging and engagement in our employees by providing a variety of benefits that go beyond the conventional wage and benefits package. Employees are entitled to paid annual leave, marriage leave, and maternity leave, as well as subsidies according to their ranks, positions and years of service. We also offer non-compensation benefits like pension and retirement benefits to preserve employees' interests. We participate in defined contribution retirement schemes organised by local government bodies in the PRC, Vietnam, Indonesia and other countries where we operate<sup>3</sup>. Through providing pension contributions and retirement benefits, we express our dedication to supporting our employees even after their tenure with us has concluded.

During the Reporting Period, Stella continued to implement a number of initiatives to demonstrate our care to employees, reflecting the Group's philosophy of valuing our employees as key assets and fostering a positive and supportive workplace. The benefits include:

- Transport allowance
- Meal allowance
- Housing allowance
- Overtime compensation
- Health check-ups
- Subsidies for workers in need
- Birthday and holiday gifts
- Built houses for employees

<sup>3</sup> *The retirement and pension related laws and regulations that might be relevant to the Group include the Labour Code 2019 of Vietnam, Social Insurance Scheme of the People's Republic of China, and Pension Fund Law of Indonesia.*



### BUILDING HOUSES FOR EMPLOYEES

In 2023, our factories in Vietnam went above and beyond to demonstrate care and support for our employees. Not only did they conduct monthly visits to assist employees in need, but they also undertook a significant initiative to improve the living conditions of those facing challenges. The construction of 24 new houses highlights Stella's dedication to improving the living standards of its employees.



### HR ANALYTICS DASHBOARD

During the current reporting period, we have digitalised our HR system and introduced the HR Analytics Dashboards to enhance our HR performance and efficiency.

The digitalisation has enabled improved tracking of employee data through two dashboards in the system. The human resources dashboard records employee data, including number of employees, gender and age distribution, and their remuneration in positions. Meanwhile, the recruitment dashboard tracks the candidate data of candidates from various sources, ensuring the equality in recruitment from recruitment websites, social media, campus recruitment, and internal referrals. The Group values employees' data privacy with data encryption conducted the system and limited access to only HR staff and senior management.

**RESPECT FOR LABOUR RIGHTS**

Stella is dedicated to treating our employees with respect and care, and committed to providing a supportive and inclusive workplace. Apart from implementing employee-friendly initiatives to demonstrate our empathy to our people, we have also established formal procedures to support employees’ freedom of association and collective agreement. Labour Unions established at factories according to local laws and regulations serve as one of the communication channels to bridge employees and the management. We maintain a close relationship with labour unions and view them as representatives of local employees.

The Group upholds respect for employees’ right to freedom of association and recognise the legal labour unions established by employees. Employees are free to join labour unions. We respect their right to negotiate with, communicate and interact with the management. When consensus has been reached between the employer and employees, labour unions of those regions may sign Collective Bargaining Agreements (CBA) with local branches of the Group. The unions can also jointly hold relevant employee caring events and activities with the Group, enhancing the communications between the Group and employees. The Collective Bargaining Agreements were established between the employer and employees at the Group’s factory sites. The purpose of the agreement is to define the terms and conditions of employment, including wages, working hours, benefits, and other relevant provisions, through mutual negotiation between the employer and the employees’ representatives. The Group always take the initiative to discuss with labour unions on issues regarding employees’ welfare and rights.

Employees are free to voice out their thoughts towards the Company through labour unions. For example, in case of dismissal of employment related to operational changes, we prioritise communication with both the affected employees and labour union. On top of full compliance with the local labour laws and regulations, we also provide support during the dismissal process, including offering alternative positions within the group as well as compensation which commensurate with the employee’s length of service in accordance with legal requirements. The Group strives to build a harmonious employer-employee relationship, and the minimum notice periods regarding operational changes are given according to local labour laws.

Over the last 3 Reporting Years, there were no strikes nor lock-outs events happened due to employee dissatisfaction.



## OCCUPATIONAL HEALTH AND SAFETY

### OCCUPATIONAL SAFETY MEASURES

Stella strives to create a safe and healthy working environment for employees. Our global Environmental, Health and Safety (“EHS”) management system oversees the Group’s policies and procedures aimed at safeguarding the health and safety of our employees and complying with all legally mandated standards. Two focus areas are underpinned for our EHS mechanism: employee health and workplace safety.

All of our factories follow the standards of ISO 45001 Occupational Health and Safety Management System, ensuring the implementation of standardised health and safety practices across our operations. The products are also verified against stringent standards established by our brand customers, covering concerned topics including chemical safety and health and safety. The Group establishes risk identification protocols and conducts regular risk assessments to identify workplace hazards effectively. For the hazards identified including food safety, machinery safety, fire control, and hazardous chemical contamination etc., we will take remedial actions and set up relevant risk control plans. For example, the area identified as high-risk will be clearly labelled and closely monitored to safeguard the health and safety of our employees.

Every employee has a role to play in upholding our EHS standard. The Group holds regular EHS meetings to review and evaluate prevailing and potential health and safety risks at workplace with the participation of different stakeholders, including labour union representatives, members from upper management, Corporate Responsibility department, and operation managers. We conduct EHS trainings and maintain regular communication with our employees, encouraging them to report potential workplace concerns through multiple reporting channels, such as email, and employee hotline without fear of retaliation. The efficacy of our health and safety management systems is analysed on an annual basis and is reviewed by our senior management team for future improvements.

During the Reporting Period, there was an unfortunate fatal work-related accident involving a forklift and a cutting machine, resulting in the tragic loss of an employee’s life. Subsequent investigations revealed that the accident was attributed to a breach of safety protocols. Although it was an isolated event, we took it seriously and conducted a thorough review of the incident. We have also developed and implemented remedial measures for factories to prevent similar incidents from occurring in the future:

- re-implementation of forklift safety training;
- securing forklifts by ropes or other assisting materials when transporting machines; and
- installation of warning lights and alarms on forklifts to alert other road users.

It is our top priority to ensure the safety and well-being of all our employees, and we remain committed to taking proactive measures to prevent incidents and maintain a safe working environment. We understand the importance of open communication between employees and supervisors, and we will strive to improve communication channels to ensure that all employees feel comfortable discussing their health concerns with their supervisors. The Group will continue to improve our management system, machinery and equipment, and safety procedure to minimise occupational injuries in the future.

With the goal of bolstering our staff's awareness and understanding of workplace health and safety. The CR team firstly undertook on-site investigation, then provided a detailed report to each factory with identified problem and improvement suggestions. This initiative encompasses a range of proactive measures, including the implementation of training programmes, the enhancement of safety protocols, and the promotion of a culture of responsibility among our workforce.

<b>HEALTH AND SAFETY STATISTICS</b>	
Total Number of Work Injury Cases	122
Work Injury Rate <sup>4</sup>	0.3%
Total Number of Work Fatal Cases	1
Work Related Fatality Rate <sup>5</sup>	0.0025%
Number of Lost Day Due to Work Injuries	2,533

<sup>4</sup> The work injury rate is calculate based on the total number of employees.

<sup>5</sup> The work related fatality rate is calculated based on the total number of employees.

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### WORKPLACE SAFETY ENHANCEMENT PROJECT IN VIETNAM

From one on-site investigation, CR team concluded that human error caused by improper operation accounted for 55% mechanical injuries in the Thai Binh factory, and 72% of work injuries happened due to non-compliance of safety protocol. Furthermore, they reviewed current mechanical equipment and identified the ones more prone to causing work injuries. For instance, they suggested to add a protective cover on the retractable part of the cylinder of universal press to ensure the safety of employee during operation.



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### WORKPLACE SAFETY ENHANCEMENT PROJECT IN INDONESIA

Labour Injury Prevention Audit was also conducted in Surabaya, Indonesia, to investigate the most common causes of work-related injuries and the risks of machinery and equipment that may lead to work-related injuries, with recommendations for the prevention of occupational injuries provided.

The audit revealed the most common type of industrial injuries is related to machine, with 90% of all work-related injuries are caused by unsafe conduct. The unsafe conduct is led by circumstances from five aspects, including environment, standards, records, people and machinery.

Through the injury prevention audit, recommendations are provided to prevent occupational injuries. For instance, safety training should be provided to employees according to their annual training plan, conditions of equipment and machineries should be checked regularly to ensure proper and safe function, PPE provided to employees should meet the PPE standard with the wearing status monitored, identification and assessment of hazardous factors should be conducted after site layout is changed in factories to identify potential safety risks.

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By prioritising the well-being of our employees and fostering a safer working environment, we aim to ensure that health and safety considerations remain at the forefront of our operations, ultimately contributing to the overall welfare and productivity of our team.

We make our best endeavours to enable all employees to work safely in accordance with the Occupation Health and Safety Procedure. We also instituted annual centralised audits at all of our plants worldwide, including the PRC, Vietnam, Bangladesh, Indonesia and the Philippines, to ensure all health and safety initiatives including the following actions are being taken across all factories, including:

- **Chemicals:** Handling of chemicals should adhere to the guidelines outlined in the Material Safety Data Sheet (“MSDS”). For instance, chemicals should be stored in a place commensurate with their danger level within a limited period of time; Chemicals must be adequately managed and overseen by warehouse personnel to ensure security.
- **Fire:** Employees should be well aware of the Fire Management and Control Procedure and actively participate in fire safety education and training including regular fire drills. To guarantee the smooth flow of evacuation routes, safety exits, and the regular operation of fire extinguishing equipment, it is strictly prohibited to stack goods near fire hydrants, fire extinguishers, and manual alarms. Likewise, it is strictly prohibited to stack products on evacuation passageways.
- **Preventive measures:** Putting up substantial number of notice boards throughout our factories to reinforce awareness of workplace safety procedures; Installing protection devices (such as widened foot stand to avoid falling when moving goods, baffles to prevent hands from being engulfed, and protective covers and sensors to avoid clamping) on the machines.
- **Personal protection:** Enforced the use of Personal Protective Equipment (PPE) to minimise the risk of occupational disease; We require all of our staff to wear personal protective equipment when working in noise sensitive areas for ear protection.

To ensure a thorough implementation of the Group’s safety measures, we organise regular trainings, workshops, and health talks to enhance our employees’ awareness of workplace health and safety procedures and the Group’s standards. The mandatory training list covers the usage of personal protective equipment, chemical management and fire safety. During the Reporting Period, we have offered occupational safety examination for all levels of employees.



Occupational health and safety examination in Indonesia and China

**PROMOTING A HEALTHY LIFE**

Throughout 2023, we continued to promote a variety of measures to safeguard the health of our employees throughout our value chain, such as conducting a sharing session to raise food nutrition awareness and ensure food safety.

At Stella, we recognise the importance of food security in the Philippines, particularly for the well-being of our staff and their families. Through our partnerships with multi-stakeholders, we have successfully implemented programmes and provided support for local school, ensuring the availability of nutritious meals and beverages for students. These concerted efforts not only contribute to cultivating a more resilient and capable workforce but also underscore our commitment to social responsibility. With these measures, we have offered food to over 100 students, aiming to combat hunger and promote a company culture of unity.



Feeding Programme

### TVOC MONITORING PROJECT

In 2023, Stella installed a total of 12 volatile organic compounds (TVOC) sensors in three of our factories, aimed at monitoring on-site VOC emissions. This real-time monitoring system will form the basis for developing strategies to enhance indoor air quality and ensure compliance with local emission regulations and our environmental commitments.

Equipped with an alert system, these monitors will promptly notify management of excessive TVOC concentrations, enabling timely responses to potential hazards and reducing the risk of adverse health effects.



### DAMAGE PREVENTION AND CONTROL MANAGEMENT

Emergency evacuation plans are developed at all factories with emergency exits and evacuation routes clearly marked in every plant. Buildings are equipped with fire alarms and fire extinguishing tools, which are inspected and tested regularly, to provide protection against fire risk.

We conducted emergency drills, such as fire drills, on a regular basis to ensure employee safety in the event of an emergency or accident.



Fire Brigade Trainings

We also arranged first aid training on a regular basis to equip employees with useful survival skills. For example, we arranged Standard First Aid and Basic Life Supporting Training sessions conducted by first aid specialists. These sessions cover essential techniques of trauma first aid, cardiopulmonary resuscitation (CPR) and the use of Automated External Defibrillator (“AED”), enhancing our employee’s proficiency in AED usage and emergency response.



Emergency Trainings

## DIVERSITY, EQUITY, AND INCLUSION

### ANTI-DISCRIMINATION

Stella has zero tolerance on discrimination and is committed to treat all employees equally, irrespective of their gender, age, race, ethnicity, nationality, political status, creed, marital status, maternity status, sexual orientation, disability or any other factors that are irrelevant to their work competence. And as our society grapples with racial and gender injustice, at Stella, we take it upon ourselves to address such issues within the Group and our communities. An Anti-Discrimination Policy has been implemented all of our operating regions to prevent any kind of discrimination.

### GENDER EQUALITY

Stella is dedicated in contributing to gender equality. Our Workplace Gender Equality Management Procedure underscores our commitment to diversity and inclusion in the communities where we work and live. The procedure has clear guideline at workplace in relation to:



Stella strictly prohibits all forms of sexual discrimination. Our staff can report discriminatory behaviour to the management through different channels covered in the “Workplace Engagement and Well-being” section of this report. During the Reporting Period, we did not receive any substantiated claims of harassment or discrimination relating to pregnancy and maternity rights or gender discrimination. We respect women’s value in the workplace and strive for a harmonious relationship between employees.



Anti-Harassment Training



Gender Equality Trainings

The Group strives to cater to our employees’ different needs and value their physical and mental well-being. As part of this commitment, we provide nursing rooms in our factories to create a mother-friendly working environment. We also ensure that pregnant staff are not assigned tasks that could be harmful to their health, as well as exempting expectant mothers who are over seven months into pregnancy from night shifts or overtime.



Nursing room in our factories

As the majority of our employees are female, Stella also provides additional female-oriented health check-up for its female employees on a regular basis. The scheme includes screening tests for breast and cervical cancer as it is one of the major concerns of female health. Also, our group has instituted a comprehensive training for pregnant employees, aimed at ensuring they are well-informed about their maternity benefits and the company’s supportive policies. This training encompasses guidance on filing for maternity benefits, utilising a Priority Lane designated for them to expedite service access, understanding modified break time rules for additional rest, and the option to adjust uniform sizes for comfort.



Female-oriented health check



Pregnant Employees Benefits Awareness Programmes

In honour of International Women’s Month 2023, our group has organised Women’s Empowerment Camp and recognised the invaluable contributions of our female workforce with special tokens of appreciation. This gesture exemplifies our deep respect for the diversity that women bring to our company and reaffirms our dedication to fostering gender equality and empowerment within our corporate family. These tokens serve as a symbol of the high regard in which we hold all our female employees.



Women's Empowerment Camp



International Women's Month 2023

In addition, we are proud to continue our commitment to the HER Project since 2021. BSR® HER Project, a collaborative initiative launched in 2007, focuses on empowering women in global supply chains. Setting the cornerstone of our efforts to promote Gender Equality within our organisation, and further fostered an inclusive and equitable workplace.



HER Project

Together with BSR and our brand customer, we conducted a series of training in English and Mandarin. This year, the topic was particular emphasis on communication styles. Through the training, participants had the opportunity to reflect on their own communication styles and receive feedback from others.

Putting themselves in others' shoes, HER project equipped our employees with valuable insight into gender roles and communication to promote gender-based programmes actively.

## EQUAL OPPORTUNITIES

The Group is an Equal Opportunity Employer in all our operational locations and is committed to comply with the principles outlined in conventions that protect women and employees, such as ILO Convention No. 190, No. 111, as well as the Convention on the Elimination of All Forms of Discrimination against Women.

We practise an inclusive hiring process for a diverse workforce by posting jobs with inclusive language and creating diverse interview panels. In 2023, women accounted for 80% of our global workforce and 45% of our leadership positions<sup>6</sup> are taken up by our female employees. In addition, we also put our efforts on hiring and promoting employees into leadership positions to cultivate equal opportunities for all to excel in their careers. We encourage professional and personal development by providing training opportunities for our employees to equip them with professional skills and knowledge on financial literacy, health and safety, time management and career advancement. During the Reporting Period, 98% of our general staff are trained, equivalent to 19.2 hours of average training hours, increased more than three-times from the 2022 data. This significant increase can be attributed to the introduction of the LEAN<sup>7</sup> programmes and other initiatives.

Our robust employee performance review and promotion system is firmly rooted in our Rewards Management Measures, which determine compensation through a careful evaluation of work ethics, attendance, performance, experience, and responsibility. To drive continuous improvement, we have instituted a comprehensive performance improvement plan. Supervisors play a key role in this plan, evaluating and identifying areas where employees can enhance their skills, setting clear performance goals, and establishing expected outcomes with specific timelines. Through this structured approach, Stella not only fosters professional development but also ensures that promotions are awarded to those employees who demonstrate exceptional work ethic, professional growth, and superior performance, thereby showing our appreciation for their dedication and hard work.

<sup>6</sup> Leadership positions include assistant manager or above.

<sup>7</sup> Originated from the Toyota Production System (TPS), LEAN principles are a set of approaches that focus on maximising volume while minimising waste through continuous workflow optimisation, streamlining processes and employee empowerment.

## WORKPLACE ENGAGEMENT AND WELL-BEING

### SENSE OF BELONGING

Stella understands the importance of the well-being of our employees. We organised various recreational activities with the aim of fostering our employees' sense of belonging and strengthening team spirit. Team building events such as Break the barriers, Sportsfest and Year End Raffle, where employees learn about teamwork and adaptability to changing circumstances were organised during the Reporting Period. Our employees enjoyed the exciting games and were able to build rapport with one another outside of the work environment.



Team Building 2023 – Break The Barriers



Sportsfest 2023



Year End Raffle & Gift Giving

The Group embraces the wellbeing of its employees and has created a comfortable and well-equipped working environment where employees can be productive and make meaningful contributions.

For instance, our factories are equipped with staff cafeterias that provide employees with a selection of nutritious and delectable meals. In addition, staff quarters are built with amenities such as playgrounds, billiard parlours, gyms and other amenities, providing our employees with a pleasant place to stay. We also provide lactation room, children playroom to cater the needs of our working mothers.

### FACILITIES AT MANUFACTURING PLANT



Wellness playground



Billiard parlour



Basketball court



Staff cafeteria

By offering these facilities, the Group not only provides our employees with comfortable living environment, but also offers a feeling of community and camaraderie among them.

At Stella, we endeavour to build a close relationship with our employees, and to provide assistance in accordance with those needs. We conduct home visit activities to actively connect with our employees and communities. We visit disadvantaged employee families and gift household electric appliances such as fan and rice cooker for their necessities. We strive to enhance the overall life quality and sustainable development to the society through connecting with the families and communities of employees.



Monthly Home Visit Activity

## COMMUNICATION AND GRIEVANCE MECHANISMS

Stella is devoted to enhancing dialogue between employee and management through active engagement and the communication channels that were put in place. We want to cultivate a speak-up culture where all employees feel included and that their opinions and concerns are valued, so that when employees face obstacles, disputes or unfair treatment at work, they will feel comfortable voicing it out through the available communication channels.

A dedicated Employee Enquiry Hotline has been established for employees to voice their concerns and grievances at work. Also, the posters are displayed in our factories to make it easy for employees to learn about the Hotline.

Employees are also encouraged to interact with us through social media, suggestion boxes, emails, employee forums, newsletters, etc. If employees prefer to contact top management directly, they can do so via the Chairman's mailbox.



## EMPLOYEE SATISFACTION

Employees are actively engaged from time to time through interviews and surveys. We leverage on the constructive suggestions provided by our employees to improve their workplace experience and enhance our employee management standards.

In 2023, a survey focusing on corporate culture was conducted among our employees. The purpose of this survey was to gain insights into our employees' perceptions of Stella's culture, management style, and their confidence in the company, as well as to gather suggestions for improvement. We received over 2,300 responses from all five regions where we operate, and the overall findings were quite positive. Employees value the stability and care provided by the company, especially during the challenges posed by the global pandemic in the previous years. They also expressed confidence in the company's future, citing the internal transformation initiatives implemented in recent years as a basis for their optimism. In terms of areas for improvement, there's a desire for more transparency in promotion processes and for enhanced communication practices to foster collaboration.

These insights will guide our future by reinforcing valued cultural aspects and addressing areas for improvement to foster a more inclusive and transparent work environment, ultimately contributing to continued success and employee satisfaction.

HR Asia also conducted a comprehensive survey focused on diversity, equality, and inclusivity. The positive outcome of this survey led to our recognition as one of the Best Companies To Work For in Asia for the third consecutive year. In addition, our factory in China has been awarded the Stable Employer Award, and our factories in Vietnam also received the award of Effective ESC Performer from our brand partner. These awards motivate us to further improve our employment and labour-related practices to meet the evolving expectations and standards of the industry and workforce.

## EXTERNAL RECOGNITION FOR EMPLOYEE PRACTICES



## RESPECT FOR CULTURAL DIVERSITY

We respect the multi-cultural and diverse backgrounds of our employees and promote an inclusive work environment. We seek to accommodate their needs and promote the different cultures. We also organised different activities to celebrate various cultural occasions with our employees. For instance, a prayer area is established in factories in Indonesia for employees who reside there. We committed to provide a working environment that is friendly to employees from all cultures and religions. During the Dragon Boat Festival in China in 2023, Stella organised a departmental tug of war for a friendly match of strength. These activities promote a healthy and active lifestyle and allows employees from different departments to mingle which foster a better bonding between employees. We also provide gifts to our employees during various festivals, such as the Dragon Boat Festival, Mid-autumn Festival, Christmas and International Women’s Day, to celebrate festivals in different cultures with our employees.

### CELEBRATING CULTURAL EVENTS WITH EMPLOYEES



Dragon Boat Festival



Distributed rice dumplings for Dragon Boat Festival



Year End Party



Christmas event



Presented Lunar New Year gifts to the Blind Association



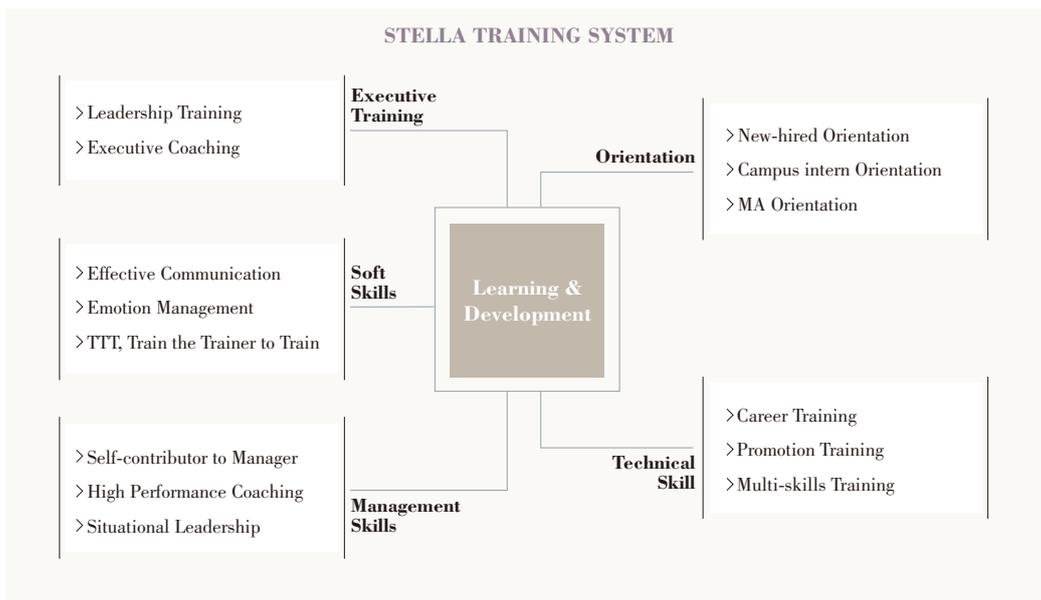
Celebration of Valentine’s Day 2023

## EMPLOYEE DEVELOPMENT AND TRAINING

### TRAINING SYSTEM AND STRUCTURE

Stella continues to drive employee development to empower our people to become purpose-driven, transformational leaders with the mind and skill sets to distinguish themselves in the marketplace and assist in delivering long-term value to our clients. We have established the Annual Training Plan which incorporates the Group’s missions, vision, management strategy and goals, and this is provided to all employees, regardless of gender, race, rankings at work, etc.

The training plan is amended according to our strategic plan and client request. Each factory develops its own training plan for the employees based on their production and conduct assessment on the training outcome. Then Group headquarter collects these data for further evaluation of the training plan. The training plan covers the following areas: orientation, technical skills, soft skills, management skills and executives training. Our comprehensive range of training courses allows all our employees to develop and hone their professional skills for career advancement. This will help them make positive contributions to the business and drive the Group’s performance.



As part of the on-boarding process, all new hires attend orientation course covering topics on corporate social responsibility and internal Code of Conduct. This orientation is designed to help new hires adapt to the work environment and culture at Stella. During the Reporting Period, we expanded the coverage to enable all employees to gain an in-depth understanding of corporate responsibility, ethical standard and other

basic rules and regulations at work. All employees are required to study the Employees' Handbook during orientation, which includes critical information such as policies and information on anti-bribery and anti-corruption. 100% of our new hires attended the orientation course during the Reporting Period.

In 2023, Leadership training became mandatory for employees in management positions, with a total of 980 employees participating in the programme. The training was designed in accordance with the Stella Leadership Standard, aiming to provide clarity on our expectations for leaders and support employees in achieving their highest performance. The Group's leadership training focuses on situational leadership, helping leaders to offer more effective guidance and support to employees based on their competences, thus enhancing individual growth and team performance.

Our training activities also covered corporate ethical standards. Employees are educated about the importance of upholding high ethical standards and are encouraged to report any suspected ethical infractions.

Other areas of training covered technical aspects and workplace safety. For instance, trainings on technical skills like chemical use, machinery operation and toxic chemical management, as well as workplace safety were also conducted. This allowed our employees to strengthen their professional and technical capabilities and gain practical knowledge to prevent injuries at workplace. During the Reporting Period, our employees, cross-functional management teams and the Board accumulated around 956,703 hours of training in total, an increase of over 537% compared to around 150,000 hours of training in 2022.

We plan to optimise a hybrid training model in the future to enhance the accessibility of our training courses and materials for all our employees. This would allow our employees and management the flexibility to learn at their own time and pace.

## **TALENT DEVELOPMENT AND MANAGEMENT SYSTEM**

At Stella, we recognise that the quality of both our training programmes and our trainers play a crucial role in unlocking our employees' full potential. The Internal Trainer Programme is designed to empower qualified staff to become trainers, enabling them to design and deliver training courses to their colleagues. Staff who acquire the internal trainer qualification can embark on their training journey, and will be promoted based on experience, teaching hours and positive feedback from participants.

Along with Teacher's Day, Stella launched an initiative, the Internal Trainer Evaluation Programme. This programme aimed to acknowledge and reward our top internal trainers. Trainers with a proven track record of giving over 35 hours of lectures or having trained more than 260 participants, were invited to apply to this programme. These dedicated trainers are required to submit a 10-minute video in advance to showcase their teaching styles. The Learning and Development Department then conducted a rigorous evaluation process, and 8 outstanding internal trainers received an award at the annual Internal Trainer Award Ceremony, recognising their remarkable contributions.



2023 Internal Trainer Award

To provide well-rounded professional development opportunities for our employees, in addition to the mandatory trainings, optional courses on soft skills such as Business English and workplace communication are made available to our employees for their career development. These elective-based trainings are conducted by external professional tutors and employees may choose to attend courses of interest to them. In 2023, we invited 4 professional advisors to conduct trainings on topics such as project management, design thinking and problem analysis and solving.



## COMMUNITY INVESTMENT

### COMMUNITY ACTIVITIES

Besides monitoring the environmental and social impact of operations, the Group recognises its responsibility as a participant in the community. Our businesses depend on the resources, infrastructure, and markets supplied by neighbouring communities. In response, we strive to make the community and society a better place by actively participating in different community programmes. The community investment programmes have been running for many years, demonstrating our commitments to support the surrounding community at our operation sites.

In addition to making charitable donations to the underprivileged, impoverished youth and families, our staff participated in environmental protection activities.

Stella believes in the power of community engagement and healthcare support, which is why we initiated a Blood Donation Programme. This meaningful event welcomed participation from both our employees and the broader community, all united by the common goal of supporting voluntary blood donation. The activity was designed to secure a reliable reserve of safe blood, contributing to the effective management of blood bank resources. By fostering an understanding that giving blood is an act of compassion, this initiative allows us to strengthen our bond with the community and reaffirm our commitment to advancing public health and social welfare.



Blood Donation Activity

Stella is committed to fostering environmental awareness and has taken a proactive role in the Sea Turtle Awareness initiative, focused on enhancing the protection and conservation of marine turtles. Aligning with this mission, two of our factories have collaborated with other corporations and local government entities to bolster sea turtle conservation activities. We engaged volunteers in a traditional dance competition, which concluded with the meaningful release of sea turtle hatchlings into the sea. This initiative enriches our corporate social responsibility endeavours and stands as a testament to our environmental stewardship, promoting a sustainable mindset within our workforce and network of partners.



Sea Turtle Awareness Activity

## **COMMUNITY ENGAGEMENT AND COLLABORATION**

Stella promotes a culture of social responsibility throughout the Group. We are devoted to improving the well-being of local communities along with our employees, business partners, and community organisations. In Indonesia, we provided parcels for communities around our factory on the Great Day of Muslim, and provided 272 Eid Al-Fitr Parcel to all employees. We also distributed flags to local residents to celebrate Indonesia's

independence day. In Bangladesh, we have distributed blankets to people in the community who are affected by the cold weather to ensure their health and well-being. Stella has co-established a social organisation with other enterprises in Shaoyang, Hunan Province, to boost the economic development of Shaoyang by enhancing the cooperation between enterprises and attracting talents. During the Reporting Period, the Group made donations in kind by supplying the communities with medical supplies, household necessities and foodstuffs, and we also donated in cash total to approximately USD84,000.



Donation for Indonesian Independence Day

**SOCIAL IMPACT**

To track our social impact to the community, we keep records of the social engagement activities for evaluation on its effectiveness and outcomes. Stella upholds the principle of societal harmony through community engagement and cultural respect, a stance reflected in our “Green Loving” initiative. This initiative saw one of our factories lead a project to plant 200 fruit-bearing trees across a protected 4,000 square meter area on Mt. Arayat. To support this environmental effort, we have entered a partnership with the Farmers Association, entrusting them with the care of these seedlings for a six-month period. Our commitment is further demonstrated by a financial contribution of USD482 from our group, underlining our dedication to the successful growth of these young trees.



Tree Planting Activity

## GREEN AND LOW CARBON MANUFACTURING

Stella's development and success requires a variety of inputs, including energy for production lines and natural resources for raw materials. We recognise the interconnected, complex, and unpredictable nature of climate change, and are committed to revamping our production processes through the lens of sustainability and circularity, taking product carbon footprint into account, and reducing pollution from resource usage. We focused on responsibly procuring and efficiently managing resources, as well as minimising types and quantities of contaminating chemicals. By embedding the same mindset into our entire product lifecycle, we seek to reduce environmental impact across our entire value chain, from manufacturing and distributing products to operating our offices, factories, and selecting upstream suppliers.

Our ESG Strategy outlines our pledge to conduct business in an ethical and responsible way, requiring all departments to follow and ensure compliance with environmental laws, regulations and specified expectations stipulated by our brand customers at our operating locations. During the Reporting period, there were no non-compliance cases in relation to environmental laws and regulations<sup>8</sup> in all operating regions of our business.

### Highlights

**19.84 MW**  
total installed capacity of  
rooftop solar panel

**9,613 MWh**  
renewable energy generation,  
equivalent to reducing over **4,600 tonnes CO<sub>2</sub>e**

**83%**  
of Stella's footwear factories  
adopted Higg FEM

Reduced over  
**3,733 tonnes**  
YoY packaging materials

<sup>8</sup> Our Group has complied with the requirements as set out in local environmental protection laws and regulations (including but not limited to the Law of PRC on Environmental Protection (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Guangdong Regulations on Prevention and Control of Environmental Pollution by Solid Wastes (《廣東省固體廢物污染環境防治條例》) and the relevant environmental protection laws and regulations in Bangladesh, Indonesia, the Philippines and Vietnam).

## ENERGY EFFICIENCY AND CARBON FOOTPRINT

### ENERGY USE AT FACTORIES

The greenhouse gas emissions generated by footwear manufacturing, such as carbon dioxide, methane and nitrous oxide, are produced mainly from the use of electricity. Stella has established goals to promote energy conservation and emission reduction within our manufacturing plants and upstream suppliers. By advocating for green operations throughout our value chain, spanning from upstream suppliers to downstream customers, we firmly believe that we can play a pivotal role in combating climate change and fulfilling carbon reduction pledges. In FY23, Stella made significant strides toward our goal of achieving zero growth in absolute greenhouse gas emissions by 2025. The total Greenhouse Gas (GHG) emissions has been reduced by 6.6% as compared to our baseline in 2021.

#### STELLA 2025 ENVIRONMENTAL TARGETS PROGRESS

Aspects	Targets defined in 2021	Progress as of 2023
Greenhouse Gases (GHG) Emissions (Scope 1&2)	To achieve zero growth in absolute greenhouse gases emissions by 2025	Achieved negative growth in absolute greenhouse gases emissions
	To reduce greenhouse gases emissions intensity by 15% by 2025 from a 2021 base year	GHG emissions intensity increased by 1.8% <sup>9</sup>
Electricity Consumption	To reduce electricity consumption intensity by 15% by 2025 from a 2021 base year	Electricity consumption intensity reduced by 1.3% <sup>10</sup>
Renewable Energy	To construct on-site renewable energy infrastructure up to 40MW scale by 2025, which is forecast to supply 15% of energy across all of our operations	Reached 19.84MW scale of total installed capacity, supplying renewable energy equivalent to 6% of our annual total electricity consumption

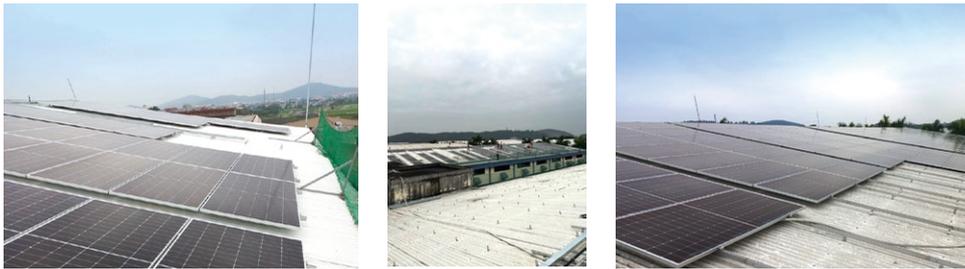
Tailored programmes and plans for emission reduction have been developed for each of our factories. For example, heating panels have been identified as a significant source of GHG emissions, contributing to a substantial portion of our electricity consumption. Therefore, we have begun to look into introducing new energy-saving heating panels with reduced heating time, aiming to minimise energy inefficiency in the process. Measures like this will enable us to achieve a notable reduction in electricity consumption. We will continue to pursue ongoing upgrades and retrofits of machinery to fulfil our environmental protection responsibilities and further reduce our carbon footprints during production.

<sup>9</sup> Due to the increase in more complex shoe models, the average processing time per pair of shoes increased, resulting in the slight increase of GHG emissions intensity.

<sup>10</sup> Electricity consumption intensity of 2021 baseline year is 2.98 kWh/pair. 2023 electricity consumption intensity is 2.94 kWh/pair.

During the reporting year, we also piloted a variety of energy efficiency programmes in different factories. For instance, we replaced over 4,000 tubes of 28W T5 lamps with 16W LED lamps in our China factories. This will help the factory save over 124,416 kWh in annual electricity consumption and around 99,533 RMB in annual electricity bills. In another factory in Vietnam, we recognised the shopfloor and reduced the number of processing lines based on the principles of LEAN production to enhance productivity and efficiency. This not only increased our production efficiency, but also led to an estimated annual electricity savings of around 924,000 kWh.

Since 2021, Stella has been installing solar panels on the rooftop of our factories. And the group's total installed capacity of solar power has reached 19.84 MW as of the end of 2023. During the reporting year, the total amount of renewable energy consumed by the group is 9,613 MWh, which is equivalent to 6.3% of Stella's annual electricity consumption. Based on our estimation, this helped us offset over 6.3 metric tonnes of CO<sub>2</sub> equivalent.



Solar panels installed at manufacturing plants

Stella embraces the increasing ESG strategies and supply chain requirements of our brand customers. Instead of merely meeting their specific environmental and energy demands, we view this as an opportunity for comprehensive systemic change across the entire Group, extending beyond customer requirements. The Group will continue to explore opportunities to expedite renewable energy adoption, as well as innovative programmes to drive emission reduction towards achieving our long-term climate goals.

### **CARBON FOOTPRINT ACROSS THE VALUE CHAIN**

Our Energy Consumption Management Procedure and Greenhouse Gases Management Policy prioritise the use of environmentally friendly materials, low-pollution materials, and renewable energy, aiming to prevent pollution generated from production activities. To promote best practices, we also take into account the environmental performance of suppliers when establishing relationships with them. During the reporting year, we have started the work to develop our Scope 1, 2, and 3 Carbon Inventory. Upon completion, this inventory will provide valuable insights into our supply chain emissions, and enable us to monitor and design decarbonisation strategies across the value chain.

**IDENTIFIED SCOPE 3 CATEGORIES**

Category 2	Capital Goods
Category 4	Upstream Transportation and Distribution
Category 5	Waste Generated in Operations
Category 6	Business Travel
Category 7	Employee Commuting
Category 9	Downstream Transportation and Distribution
Category 12	End-of-Life Treatment of Sold Products

The Group's Suppliers Management Procedure includes Environmental and Social audits and evaluations for new suppliers to ensure alignment with our principles and objectives regarding sustainability development. This procedure standardises our approach to selecting, auditing, and evaluating all engaged suppliers. Our Supplier's Principle also encourages supply chain localisation to reduce product carbon footprint in transportation and logistics stages.

The Group will continue collaborating with suppliers to monitor their environmental impact and advocate adoption of international standards and self-assessment tools such as the Higg Index. During the reporting year, we have initiated efforts to understand core suppliers' knowledge and adoption status of the Higg Index. Moving forward, we will further promote the utilisation of this tool to enhance supply chain environmental performance and risk management.

**MANAGEMENT AND CONTROL**

Our Environmental Protection and Management Policy outlines the role of our employees in achieving the Group's environmental objectives. The policy reaffirms our commitment to complying with international conventions, local environmental regulations, industry standards, and customer requirements to minimise our environmental impact. This high-level policy seamlessly integrates with our operational procedures, such as the Energy Consumption Management Procedure and Greenhouse Gases Management Policy. These procedures offer standardised operational guidelines for recording, monitoring, and managing energy consumption and GHG emissions, providing a framework for all relevant parties.

## ENVIRONMENTAL PROTECTION AND MANAGEMENT POLICY – HIGHLIGHTS<sup>11</sup>

**Objective:** The Environmental Protection and Management Policy is formulated by the Corporate Responsibility Department that emphasizes prevention and control measures. We are committed to protecting the environment, adhering to relevant laws and regulations, implementing continual improvements, preventing pollution, and minimising the adverse impact on the environment.

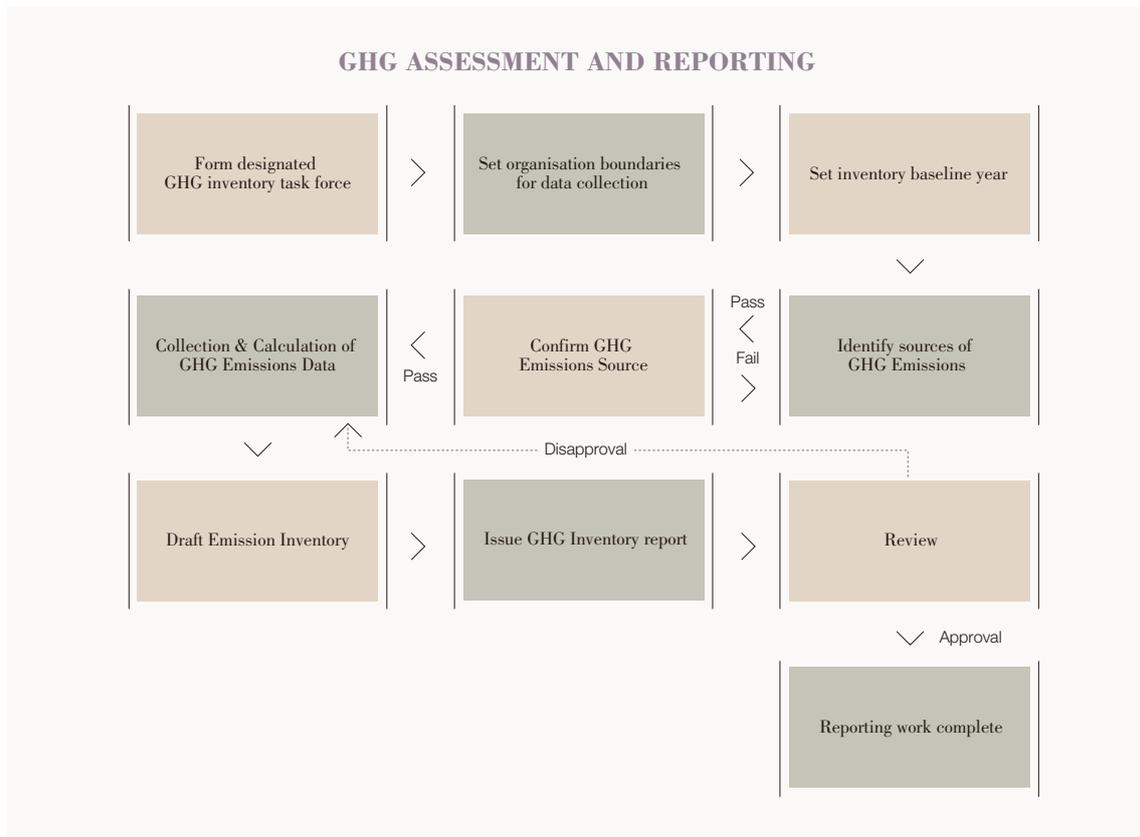
**Scope:** All factories managed by the Group shall follow the provisions of these procedures (in case of conflict with local laws, factories shall comply with all applicable laws and regulation in areas where they operate).

**Summary:** We aim to build a business environment with low pollution and resources circulation. Various action plans have been developed to reduce environmental impacts, which include:

- providing sufficient operational resources for environmental management;
- regularly reviewing and updating policies to comply with international conventions, national regulations, industry standards and client requirements;
- identifying and evaluating environmental risks for factory equipment, work procedures, projects, and incorporating requirements from external stakeholders to monitor the identified risks;
- communicating environmental targets, standards, and performances with relevant parties, including the management and employees;
- prioritising the use of eco-friendly materials and renewable energy, and avoiding pollution during manufacturing activities;
- utilising resources reasonably and minimise waste generation through recycling;
- monitoring wastewater, air pollutants and noise pollution through regular facilities checking and maintenance;
- implementing energy-saving measures;
- encouraging suppliers and contractors to minimise environmental pollution;
- enhancing environmental related education and training to raise employees' environmental awareness; and
- establishing an environmental management team to oversee the implementation of these practices.

<sup>11</sup> The Policy is extracted partially for disclosure purpose.

The Group has established Environmental, Health & Safety Committees in each factory tasked with controlling and monitoring greenhouse gas (GHG) emissions identified by the Intergovernmental Panel on Climate Change (“IPCC”). Carbon intensity assessments are conducted at every stage of our operations. GHG emissions data is collected and calculated to generate the GHG Report, which incorporates the results of carbon and energy intensity assessments across all production stages. Utilising historical data, the Group will enhance defined targets and implement measures to meet environmental goals set by regulatory bodies.



Energy management and emission control are integral components of the Group’s internal management performance evaluation. Consequently, factories have implemented stringent management and operational guidelines for energy intensive production equipment, conducting monthly checks on their electricity consumption. On-site audits were performed at all factories and some suppliers in Mainland China. The audits encompassed the establishment of environmental protection and energy-saving policies, on-site management of energy usage, equipment operation efficiency, and maintenance status, progressively advancing energy management. The on-site audits conducted in 2023 had an expanded scope, encompassing a broader range of environmental and social related topics and areas of emphasis.

## **CHEMICAL AND WASTEWATER MANAGEMENT**

The Group recognises the importance of addressing pollution at every stage of Stella's operation, from the processing of raw materials to the assembly of finished goods. Improper handling of pollutants, including chemicals, waste, effluent, and noise, may result in significant harm to the environment and human health. Therefore, the Group is committed to monitoring, avoiding, reducing, and transforming pollutants to minimise their impact on the environment and society.

### **CHEMICAL USAGE**

We are committed to minimising the environmental and social impact of our production process by looking into the chemical and substances that we are using. In line with the four processes of REACH initiated by the European Union, including Registration, Evaluation, Authorization and Restriction of Chemicals, we have formulated the Restricted Substance List (RSL) and documented forbidden substances in the Material Safety Data Sheet (MSDS) to regulate the use of hazardous substances. This approach is designed to prevent potential risks related to reproduction, contact dermatitis, health and safety of our employees and environmental impact. For example, chemicals and substances such as Polyvinyl Chloride (PVC) and Dimethyl fumarate (DMFu) are identified for strict control, while Asbestos and Tributyltin (TBT) compounds are banned from using in our production process to safeguard the health and safety of our employees and the communities in which we operate.

Additionally, we understand that our clients' brands rely heavily on the quality and safety of our products, and we take this responsibility seriously. By sharing our knowledge and expertise on restricted substances and chemicals, we aim to empower our clients to make informed decisions that prioritise the health and safety of their customers, employees, and the environment.

The table below provides an example of how we monitor the use of chemicals and substances along our production line, and demonstrates our comprehensive approach in restricting the use of potentially harmful chemicals and substances:

Scope of restriction	Chemicals & substances	Reason for inclusion in RSL	Potential usage
Restricted usage	Polyvinyl Chloride (PVC)	Potentially promotes carcinogenesis and contributes to environmental degradation	Plastic material used as a synthetic leather substitute
Restricted usage	Dimethyl fumarate (DMFu)	Potentially causes allergic reactions	Potential application as a biocide in shoes to prevent growths of mildew
Banned from usage	Asbestos	Potentially leads to various dangerous lung disease	Potential use in the production of fabrics and garments
Banned from usage	Tributyltin (TBT) compounds	Potentially toxic for reproduction and marine ecosystem	Potential use as an antifouling agent during printing process
Banned from usage	PFAs-free	Potentially disrupt biological functions, impact development and increase cancer risk.	Potential application as water repellent barrier on outer fabric

Our commitment to responsible chemical management and sustainable production practices goes beyond regulatory compliance; it is a moral imperative. We consistently review and update our Restricted Substance List (RSL) and Material Safety Data Sheet (MSDS) to ensure that all materials in our production line comply with regulatory requirements and meet the standards of our brand customers. During the reporting period, we implemented updates to the pre-treatment methods for Chromium VI and Chlorinated Paraffins, as well as revised test methods and limits for substances like PAHs and organotin compounds. Additionally, we enforced a ban on the use of PFAS to align with brand customers and US regulation. The procurement of chemicals listed in the RSL is strictly regulated. Before onboarding suppliers, we require them to confirm their understanding of our RSL, providing valid certificates and licenses. Any material not previously used in our production lines undergoes sample testing by an accredited third-party laboratory before storage and usage.

Moreover, the RSL is regularly updated and integrated into our chemical management system to enhance traceability, ensuring that all materials in our production line consistently comply with regulatory requirements and the standards set by our brand customers.

**SAFE HANDLING AND DISPOSAL PRACTICES**

Guided by the Environmental Protection and Management Policy, Stella is committed to minimising our environmental impact from the inception of our product lifecycle. To achieve this goal, Stella has formulated a comprehensive Chemical Management Policy that outlines our fundamental requirements for the responsible use of chemicals. We have implemented a stringent identification and tracking system to ensure that non-tested and uncertified chemicals cannot be used in production. Strict adherence to the Policy is mandatory when procuring, storing, and using dangerous or restricted chemicals, dyes, agents, and detergents during production.

The Policy also stipulates specific requirements for the proper labelling and storage of liquid chemical waste, emphasizing the importance of a designated hazardous waste chemical warehouse. Furthermore, only certified contractors are authorised to handle the collection, storage, and disposal of such waste, ensuring compliance with rigorous standards in waste management practices.

## CHEMICAL MANAGEMENT POLICY – HIGHLIGHTS<sup>12</sup>

**Objective:** The Chemical Management Policy is formulated by the Safety Management Department to implement the general knowledge system of hazardous chemicals, in order to enhance the awareness of relevant personnel and engineering contractors in factory operation on the potential danger, preventive measures, and emergency response protocols of hazardous chemicals. In addition, the policy ensures the exclusion of chemicals prohibited by international standards, to ensure the health and safety of our consumers.

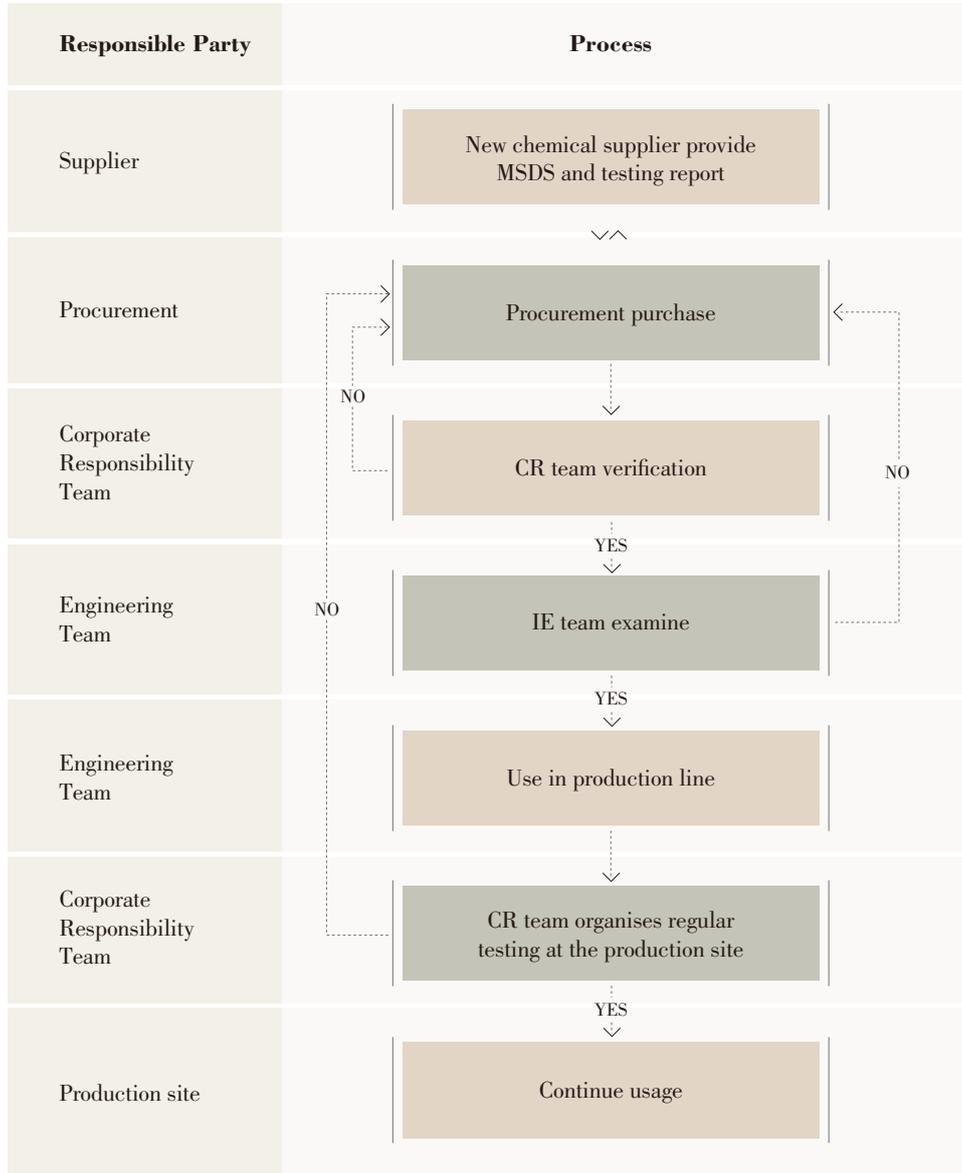
**Scope:** All factories managed by the Group shall follow the provisions of these procedures (in case of conflict with local laws, factories shall comply with all applicable laws and regulation in areas where they operate).

**Summary:** We aim to mitigate negative impact on our employees, the community we operate at, and the environment. Various practices are implemented to ensure the effective management of hazardous chemicals, which cover areas of:

- Introduction of new chemical procurement
- Receiving chemicals
- Chemical data and labelling management
- Use of chemicals
- Storage of chemicals
- Transportation of chemicals
- Disposal of chemicals
- Emergency handling of chemicals
- Occupational health and industrial hygiene control of chemicals
- Chemical Safety Training
- Specific chemical requirements

<sup>12</sup> The Policy is extracted partially for disclosure purpose.

**CHEMICAL SELECTION FLOW CHART**



To ensure compliance with our chemical management system and local regulations, our Chemical Management Policy mandates that factory staff undergo internal training in chemical safety. Additionally, employees are encouraged to participate in training sessions offered by our brand customers. These sessions serve as a platform for sharing insights on the management of chemical safety and addressing environmental challenges in the industry.

The careful treatment of chemical components coursing through ground-level and water streams is crucial to avoid often hidden yet detrimental environmental and health impacts. Our internal policies, coupled with the influence of our brand customers, empower us to pursue continuous improvement in chemical substitution and/or phasing-out. This approach helps minimise the release of potentially dangerous chemicals into the surrounding environment of our operations.

We are committed to providing regular updates to our brand customers regarding material changes in accordance with the Restricted Substance List (RSL). This proactive communication aims to enhance their awareness of our chemical safety and management approach. Simultaneously, we communicate this message to our suppliers, encouraging them to align their practices with those of our brand customers.

## **WASTEWATER MANAGEMENT**

Consumers, investors, governments, and non-governmental organisations (NGOs) now expect that brands and manufacturers adhere to stricter wastewater regulations, such as the Zero Discharge of Hazardous Chemicals (ZDHC) Wastewater Guidelines. Stella is committed to minimising water pollution throughout its production process.

The engineering department is responsible for monitoring and regularly reporting effluent quality and volumes and ensuring wastewater treatment and handling facilities are functioning properly. We have installed appropriate equipment and infrastructure in our factories to ensure proper handling, segregation, and diversion of various types of wastewaters. Measures such as installing filters were carried out to mitigate environmental impact of sewage. We arrange various role-based training for sewage handling staff. We also actively raise employees' awareness on reducing water pollution, encourage our employees to use phosphorus-free washing powder and install water flow regulators.

As most sewage is generated from the employee living quarters, we strictly abide by government rules and regulations to manage our sewage and have formulated the Wastewater Treatment Management Procedures to govern our approach to properly treat industrial sewage and wastewater generated in our staff quarters. We also appointed third-party professionals to conduct sample analysis on the effluent before final discharge to the municipal wastewater network, ensuring our compliance with relevant national laws<sup>13</sup> and regulations as well as other standards stipulated by our clients. There were no non-compliance cases regarding wastewater discharge observed in 2023.

<sup>13</sup> The Group complies rules in accordance with the operation location includes Law on the Prevention and Control of Water Pollution of the People's Republic of China, the Law on Environmental Protection in Vietnam and Bangladesh Water Act 2013.

## **COLLABORATION IN VALUE CHAIN**

Stella is committed to eliminating hazardous chemicals and substances throughout our value chain, emphasizing the adoption of chemicals with low toxicity, corrosiveness, and irritation.

Building on the comprehensive chemical phased-out plan and timeline established during the last reporting period, our Bangladesh factory has advanced its collaboration within the value chain. Together with our chemical suppliers, we ceased the use of RFE, a “Red (Prohibited)” chemicals identified under the CHEM-IQ programme and have successfully substituted it with NX-RFE “Yellow (Allowed)” in 2023. This collaboration highlights the importance of partnerships in reducing hazardous chemicals and enhancing safety across the value chain, showcasing our commitment to responsible chemical adoption and sourcing.

## **CLIMATE CHANGE MITIGATION AND ADAPTATION**

### **RISK GOVERNANCE**

The Group’s sustainability governance has been structured to incorporate climate change considerations at every level of our operations. The Board ensures that the Group’s decisions align with Stella’s sustainability development goals. To enhance decision-making in this regard, all Board members attended climate risk-related training to bolster their knowledge in the reporting year.

At the management level, the Corporate Governance (CG) Committee actively monitors and evaluates climate-related policies and progress toward climate targets, providing annual updates to the Board. The CG Committee effectively communicates key climate concerns to the Sustainability Development (SD) Committee. The SD Committee, along with respective SD Departments, implements responsive initiatives for climate mitigation and adaptation.

Group policies and procedures, such as our Environmental Protection and Management Policy, Energy Consumption Management Procedure, and Greenhouse Gases Management Policy, are in place to integrate climate considerations and ensure continuous monitoring of our climate change contribution within our practices. Our Global Responsible Sourcing and Procurement Policy also prioritises supplier carbon footprint and compliance with climate-related regulations when selecting supply chain partners.

## CLIMATE STRATEGY

Climate change stands as a significant issue with the potential to impact Stella's overall value creation and financial planning. The increasing financial and regulatory costs associated with energy-related matters have become crucial considerations in managing the Group's production processes. Currently, we are in the process of developing a robust climate strategy that addresses areas of operation within our control, minimising potential losses to external climate-related risks, and capturing opportunities associated with climate change.

In FY23, our focus is on initiating in-depth analyses of our operations to create a comprehensive plan. We aim to first understand the short and long-term climate-related risks and opportunities. Our stakeholder engagement this year includes interacting with those most familiar with our day-to-day operations to identify areas for reducing our climate change contribution.

Additionally, although we conducted a climate risk assessment in 2022, Stella has engaged a third-party consultant in this reporting year to re-evaluate our climate-related impact in greater depth. The scope of the assessment will be expanded from just our own operations to the Group's entire value chain. The results will be used to create a proactive, transformative, and long-term climate change strategy for Stella.

**2023-2024 CLIMATE RISK ASSESSMENT**

The Group has engaged an external consultant to conduct a climate risk assessment to identify potential climate risks and opportunities that are material to its operations. Through a review of Stella’s multinational operations, regional and global regulatory development, and market practice, Stella has developed a preliminary list of acute and chronic physical risks and opportunities below. The list will be assessed and disclosed further in the next reporting year, using climate scenario analysis to evaluate each selected climate hazard’s severity, likelihood of occurrence, and Stella’s vulnerability to suffer adverse impacts from them.

<b>Physical Risks</b>	<b>Acute</b>	<b>Potential Impact</b>	<b>Region</b>
	Extreme Precipitation	Increased flooding, with subsequent disruption to transportation and supply chain.	China Vietnam Indonesia Philippines
	Flooding	Damage or disruption to manufacturing facilities and production schedules, and substantial financial losses.	China Vietnam Indonesia Bangladesh Philippines
	Typhoon	Disruption to supply chain and increased logistical challenges.	China Vietnam Indonesia Bangladesh Philippines
	<b>Chronic</b>	<b>Potential Impact</b>	
	Extreme Heat	Harm to workers’ health, disruptions to manufacturing processes, and increased energy costs associated with cooling measures.	China Vietnam Indonesia Bangladesh Philippines
	Sea Level Rise	Long-term damage to coastal facilities and operations.	China Vietnam Indonesia Philippines
	Water Scarcity	Disruptions to manufacturing processes, particularly in regions where water resources are limited.	China Indonesia Bangladesh

A list of potential transition risks and opportunities have also been identified, as shown below.

<b>Transition Risks &amp; Opportunities</b>	Policy & Legal	Operational and financial implications from the nature and timing of policies such as carbon-pricing mechanisms, lower emission energy transition, and adoption of energy-efficient solutions
		Increased climate-related litigation cases from failing to adequately mitigate the impacts of climate change, or sufficiently disclose material financial risks
	Technology	Additional investment to adopt clean and low-carbon technology  Improvements in operational efficiency, maintained competitive industry position in a changing market, and improved climate change mitigation by embracing new technology within manufacturing processes
	Market	Decreased market share and sales from failing to align to shifting consumer preferences towards sustainable products and practices  Maintained competitive industry position from prioritising sustainability in product development and manufacturing
	Reputation	Tarnished company’s image and eroded customer trust from negative publicity, fuelled by environmental controversies or accusations of greenwashing  Enhanced positive reputation as an environmentally conscious brand from adopting sustainable and climate-friendly initiatives

**STELLA’S INITIATIVES FOR EMISSION REDUCTION & ENERGY CONSERVATION**

<b>GHG Emissions Sources</b>	<b>Initiatives Implemented</b>
Production Unit	<ul style="list-style-type: none"> <li>• Install rooftop solar panels in our factories to promote the adoption of renewable energy</li> <li>• Introduce new technology in our production process to reduce energy consumption</li> <li>• Imposed stringent management and working guidelines in manufacturing units for production equipment with high electricity consumption</li> <li>• Monitor and guide each department’s energy consumption using two parties – regular electrician patrols and the equipment maintenance department – and rectify identified leakage of compressed air to avoid electricity wastage</li> <li>• Prioritise procurement of energy efficient equipment and machinery</li> </ul>
Lighting	<ul style="list-style-type: none"> <li>• Use energy-efficient lighting equipment, and adopt natural light wherever possible</li> </ul>
Air Conditioning	<ul style="list-style-type: none"> <li>• Monitor and adjust the temperature of the working environment to suit each department’s work activities</li> <li>• Set temperature for the air-conditioning in offices at 26°C during summer, and maintain comfortable temperatures in workshops by employing low energy-consuming cooling equipment such as water curtains, high-volume-low-speed fans and insulation of heat generating equipment in workshops</li> </ul>
Heating	<ul style="list-style-type: none"> <li>• Implement residual heat recovery systems</li> <li>• Adopt solar water heating and compress air heat recovery system for hot water supply</li> </ul>
Motor Vehicles	<ul style="list-style-type: none"> <li>• Record car mileage, maintain and repair motor vehicles timely to reduce inefficient petrol consumption</li> </ul>

**CLIMATE RISK MANAGEMENT**

The climate risk assessment, scheduled to be completed in the next reporting year, will identify specific climate risks and opportunities based on different climate scenarios, including a 2°C<sup>14</sup> or lower scenario, over short-, medium- and long-term time horizons. We will evaluate the impact of identified risks and opportunities on our business operations, as well as the adaptive capacity of our assets. An actionable and effective mitigation plan will be developed, accounting for the multifarious ways climate-related issues may impact different aspects of our value chain.

<sup>14</sup> 2°C scenario lays out a pathway and an emissions trajectory consistent with holding the increase in the global average temperature to 2°C above pre-industrial levels.

**METRICS AND TARGETS**

With a long-term commitment to sustainability as a priority, the climate risk assessment will equip Stella to eventually set science-based climate targets to replace the Group’s existing 2025 goals defined in 2021.

Stella strives to optimise a mechanism to measure, manage, and report carbon emissions and other target-tracking metrics. In the previous reporting period, Stella launched the Smart Stella initiative to enhance environmental management through digital platforms, and six programmes are already in effect to gradually enable more seamless monitoring of climate-related metrics across our operations.

Meanwhile, we are currently conducting a carbon inventory across scope 1, 2, and 3 emissions, and will explore the feasibility of implementing a climate-related remuneration policy and internal carbon pricing. We will maintain annual reporting of emissions to all our stakeholders.

Our 2023 progress and 2021 defined emissions targets can be found in section “Energy Use at Factories”. We plan to review and update targets to be verified with the Science Based Targets initiative (SBTi) in at the earliest in 2025.

**WASTE MANAGEMENT**

In alignment with the circular economy concept, Stella is committed to revolutionising the entire product development lifecycle. At Stella, we are dedicated to diminishing both hazardous and non-hazardous waste generated in production, aiming to minimise scrap generation through process improvements. Our goal is to redirect and recycle waste, maximising the value derived from each material. The total waste generated in FY 2023 has decreased from the previous year. However, owing to the increase in more complex shoe models and required accessories, we saw an increase in YoY waste intensity by 5.8%.

<b>STELLA 2025 ENVIRONMENTAL TARGETS PROGRESS</b>		
<b>Aspect</b>	<b>Targets defined in 2021</b>	<b>Progress as of 2023</b>
Waste Generation	To reduce total waste generation intensity by 10% by 2025 from a 2021 base year	Waste generation intensity increased by 14.4%

## WASTE GENERATION AND COMPOSITION

Minimising waste generation and promoting sustainable waste practices are integral components of Stella's commitment to environmental responsibility. An assessment of waste generated by our operations provides valuable insights into the types and quantities produced. Categorisation of waste streams, including but not limited to food waste, municipal waste, and packaging materials, enables a comprehensive understanding of the waste landscape. This categorisation lays the foundation for strategic waste management practices that prioritise reduction, reuse, and recycling. By identifying the composition of generated waste, Stella can implement targeted initiatives to minimise its environmental impact, aligning with the principles of a circular economy.

## WASTE REDUCTION STRATEGIES

By implementing comprehensive group-wide waste management policies and conducting employee training on effective waste segregation methods, we ensure the proper handling and responsible disposal of waste generated from our factories. Licensed operators are appointed to collect waste for recycling to increase waste diversion. Role-specific training for staff ensures their understanding of obligations in adhering to our waste treatment standards and procedures, preventing materials from entering landfills at the end of their product lifecycle.

In 2023, we not only upgraded our manufacturing technology to optimise processes, but also collaborated with suppliers to replace disposable packaging boxes with recyclable containers. Both initiatives were aimed at reducing solid waste generation.

We are progressively converting our manufacturing lines to paperless operation by substituting paper-based entry forms with digital ones. Our supply chain management department has established a Group target to reduce paper usage by 50% by 2024, compared to the baseline year 2023. In addition to Group target, we have also set targets for each region. We will continue to closely monitor the paper reduction performance in regional offices to ensure progress towards the target.

Our waste management practices also encompass chemical management. Liquid chemical waste and empty chemical containers must be appropriately labelled and stored in the hazardous waste chemical warehouse, with collection and handling performed by contractors certified by the relevant authority for storage, disposal, or discharge. Municipal waste with low impact, such as food leftovers and used oil in canteens, is directed to authorised third-party agents for treatment and recycling.

Whilst the Group has strong competence in technology innovation, it remains committed to ongoing investment in research and development to further advance its environmental performance through the adoption of new technologies. Currently, the Group is actively engaged in the exploration and testing of sustainable materials as potential replacements for traditional materials, with the primary objective of minimising waste generation and contributing to a more sustainable and eco-friendly operational model.

The Rubber Flash Reduction Programme introduced in the previous year continued its success and has been expanded to other factories in 2023. Utilising the digital system to detect rubber flash and optimise mold maintenance, the factory achieved an 8% scrap reduction rate totaling 7,500kg of solid waste reduction. We remain committed to enhancing our production process and incorporating more stringent environmental standards into our operations.

**CIRCULARITY AND RESOURCE REUSE**

Across our entire value chain, we are actively implementing a range of initiatives aimed at increasing recycling rates and maximising material recovery. Embracing the principles and strategies of the circular economy, we explore innovative approaches to minimise waste and extend the lifespan of materials. Our commitment to waste minimisation is evident as we strategically reuse scraps generated during manufacturing and employ upcycled materials for reusable packaging, contributing to a higher waste recycling ratio. Waste recycling efforts, particularly in adhesive foam recycling, have led to significant progress. Our factories dedicated to sports footwear also achieved an impressive solid waste recycling rate of 56.5%.

We have developed and utilised digital tools that standardise waste management practices to ensure efficiency and consistency in our waste management processes across the entire group. These tools streamlined processes, providing a systematic and effective approach to waste management. As part of our broader strategy, we are actively exploring closed-loop systems, recycling, and upcycling methods to further minimise waste generation and optimise material usage.

**WATER STEWARDSHIP**

Stella acknowledges the responsibility to manage water resource with utmost care and mitigate our own water footprint. Our Water Stewardship initiatives reflect a comprehensive approach, integrating sustainable practices and innovative solutions to ensure the responsible use and conservation of water resources.

<b>STELLA 2025 ENVIRONMENTAL TARGETS PROGRESS</b>		
<b>Aspect</b>	<b>Targets defined in 2021</b>	<b>Progress as of 2023</b>
Water Consumption	To reduce water consumption intensity by 15% by 2025 from a 2021 base year	Water consumption intensity reduced by 5.4%

## **WATER USAGE AND TRENDS**

In evaluating water consumption patterns, Stella identified that the primary contributors to water usage were staff canteens, restrooms, and staff quarters. This awareness prompted regular monitoring of water usage, enabling the implementation of targeted conservation initiatives. By focusing on these areas, Stella aims to enhance its water management practices and minimise its overall water footprint.

## **WATER CONSERVATION MEASURES**

The Group is committed to reducing the amount of water usage and improving water use efficiency. By engaging with our employees and strengthening their awareness on water conservation with a top-down communication approach, our factories will be able to better manage the usage of water in the long run. Low-flow faucets and smart water meters were installed in some of our staff quarters, and monthly reviews on water consumption are arranged to analyse the water usage data trend. If the consumption exceeds the range specified, it will be investigated, and timely remedial actions will be taken.

We conduct regular checks and maintenance of water ductwork to reduce leakage. In early 2023, we leveraged on the newly purchased ultrasonic leakage detector to detect water leaks in difficult-to-reach locations. The tool allows us quickly pinpoint leaks and repair them before they cause further damage. We can therefore improve the efficiency of our water management system and durability of our water pipelines. As a result of conducting leakage checks and repairing underground pipes, two of our factories in China achieved a reduction in average water usage by 23% and 20% respectively during the reporting year.

## **WATER RISK ASSESSMENT**

While the Group primarily relies on municipal water sources with no immediate sourcing issues, Stella remains proactive in addressing potential future challenges. Recognising the potential environmental impact on freshwater availability, efforts are underway to explore alternative water resources such as rainwater and recycled water. Water reclamation systems have been established to repurpose treated wastewater for non-potable purposes, reducing dependence on municipal water. Stella is committed to supporting local initiatives that raise water awareness and introducing water management solutions for the broader community. Collaborative efforts with stakeholders aim to address challenges related to water scarcity and pollution, contributing to sustainable water management practices.

## BUILD A RESILIENT SUPPLY CHAIN

A resilient supply chain stands as the critical foundation for the success and sustainability of any business. It is our conviction that achieving true resilience in supply chains extends beyond the pursuit of operational efficiency; it necessitates a steadfast commitment to robust Environmental, Social, and Governance (ESG) practices. These practices play a pivotal role in mitigating a wide array of risks, from environmental challenges and social inequalities to governance deficiencies. To this end, we are dedicated to fostering strong, collaborative relationships with all stakeholders in our supply chain. Through open communication and the integration of ESG principles, we aim to not only enhance the resilience of our supply chain but also to uphold our commitment to sustainability and ethical integrity. This approach ensures that our supply chain not only meets current needs but is also prepared to adapt and thrive in the face of future challenges.

Stella is committed to ensuring that all of our operations in Mainland China, Hong Kong and other manufacturing locations comply with all relevant laws and regulations<sup>15</sup>. We are also dedicated to promoting responsible product management practices within our industry and beyond. During the Reporting Period, there was no non-compliance case in relation to operation practice or product quality.

### Highlights

**100%**  
of suppliers have been reviewed

**60%**  
core suppliers are certified

**Environmental & Social**  
criteria incorporated into supplier scoring system

<sup>15</sup> The relevant laws and regulations include the Prevention of Bribery Ordinance (Cap. 201) of Hong Kong, together with Criminal Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China, Product Quality Law of the People's Republic of China, Anti-money Laundering Law of the People's Republic of China and other related laws and regulations.

## PRODUCT QUALITY

### **COMPLIANCE WITH MATERIAL RESTRICTIONS**

We are dedicated to protecting the health and safety of our clients. All footwear products on the production lines will only be scheduled for formal production after they have undergone health and safety hazard assessments.

During mass production, we strictly adhere to the Zero Discharge of Hazardous Chemicals (ZDHC) guidelines. All new raw materials must go through sampling tests before warehousing to prevent inappropriate materials from being used in production and ensure compliance with material restrictions laws and regulations. In compliance with the US regulations, we have updated PFAS-FREE into our Restricted Substances List (RSL) during the reporting year.

During the Reporting Period, there was no case of non-compliance in relation to the material restrictions laws and regulations or product responsibility. Also, no sold or delivered product was recalled for safety and health reasons.

### **QUALITY CONTROL FOR PRODUCTS**

To ensure the delivered products are of the highest calibre and conform to the customers' expectations for Stella, the safety and quality of our products are strictly regulated and inspected thoroughly. Prior to packaging, all finished shoes undergo scanning and inspection by specialists or metal detection devices to ensure that there are no metal scraps or sharp objects remaining. The packing for all qualified finished shoes is carried out under the supervision of trained staff and the boxes are sealed to avoid tampering. Any potential safety and health risk to our customers is avoided through our dedicated and standardised procedures in the production line.

During the reporting period, we collaborated with our brand customers to host an online sharing session with 87 suppliers on material testing processes. Additionally, a meeting was held with the suppliers of luxury brands where our product development team and laboratory personnel discussed material testing control requirements for product safety and quality enhancement.

We also have a real-time cloud inspection (CIS) system that enables staff to monitor defect rates and address quality issues promptly. Defect cases are recorded in a database for analysis and solution development to prevent future occurrences. We also capture images of defects for use as reference materials in quality assurance training for production line supervisors.

The quality and safety of our products can also be impacted by the raw materials used. As such, for the procurement of raw materials, we only work with suppliers who meet our stringent criteria: possessing valid business licenses and relevant qualification certificates, demonstrating strong technical expertise, maintaining a record of credible performance, and adhering to national and industry-specific production standards in their quality control procedures. By doing so, we ensure that the raw materials procured contribute to the excellence of our final products.

Corrective measures including investigations, product recalls, and the submission of a corrective action plan have been put in place and will be taken if performance standards are not met. We have proactively worked with suppliers to resolve any issues related to product quality. We set clear quality objectives for our suppliers to achieve, which include the swift and effective handling of customer inquiries.

## **SUPPLY CHAIN MANAGEMENT**

The supply chain management strategies of Stella support our sustainability development goal and lay the foundation for us to uphold environmental, social and ethical standards. We acknowledge that the whole industry, from upstream suppliers to downstream distributors, must collaborate to develop a value chain that minimise environmental and social impact. Therefore, we actively engage with our suppliers and continues to enhance our operation practices to mitigate the environmental and social risks in our supply chain. For example, during the reporting year, surveys and on-site assessments were conducted to help us understand GHG emission-related status of our suppliers in support of our ISO 14064 certification and later setting of science-based targets.

A group-level Suppliers Management Procedure is also in place to maintain a fair and equitable partnership with our suppliers and ensure they share the same commitment with us in building an ethical and sustainable supply chain.

## SUPPLY CHAIN MANAGEMENT PROCEDURE – HIGHLIGHTS<sup>16</sup>

**Objective:** The Supply Chain Management Procedure is formulated to ensure all suppliers meet our requirement on procurement standard, product quality, social responsibility and financial status with gradual improvement to achieve mutual development and fulfil the criteria of the Code of Consumer Conduct (COC).

**Scope:** Our supply chain spans across various geographical regions, including Mainland China, Hong Kong, Italy, Korea, Vietnam and other Asian, European and American regions. All supply chain management of the factories managed by the Group shall follow the provisions of these procedures (in case of conflict with local laws, factories shall comply with all applicable laws and regulation in areas where they operate).

**Summary:** We aim to form a sustainable supply chain through the selection, monitoring and reviewing process of our suppliers. Various procedures are implemented, which include:

- selecting suppliers based on their social responsibility performance and eliminating those with unsatisfactory performance;
- conducting operations, certification, and social responsibility audit on new suppliers prior to establishing business relationship;
- requiring suppliers to consent to our Code of Conduct prior to receiving the supplier contract;
- understanding the business relationships of suppliers, to prevent serious violations of business conduct such as illegitimate interests and unfair competition;
- cooperating with brand customers to establish the supplier audit plan and conducting an on-site audit regularly to evaluate the social responsibility performance of major suppliers;
- promptly following up with the improvement plan and providing technical support in case of non-compliance found during on-site supplier audit; and
- actively managing suppliers by filing information of suppliers', and recording the supplier evaluation results after every audit, and follow through the improvement measures as appropriate.

<sup>16</sup> The Policy is extracted partially for disclosure purpose.

## SUPPLY CHAIN MANAGEMENT STATISTICS

During the reporting year, we have placed order with a total of 1,229 suppliers for packaging, secondary processing, molds and materials, such as leather, fabrics and PU plastics. Prior to engaging a new supplier, our Supply Chain Management Team will conduct an on-site visit to learn about the potential supplier's operations, where they source their raw materials and their certification status. Potential suppliers will be evaluated on production equipment, staffing and production capacity, etc. The results will be benchmarked against peers to encourage benign competition among suppliers.

As indicated in the "Carbon Footprint across Value Chain" section earlier, the Group advocates localising suppliers to achieve production efficiency, mitigate potential supply chain disruptions, as well as to reduce carbon emissions during transportation, logistics and distribution. As a result of growing stringent supplier selection criteria, the number of suppliers spanning across different geographical region may change year on year. During the reporting year, the majority (54%) of suppliers come from Mainland China.

### 2023 SUPPLIER DISTRIBUTION

Mainland China	669
Vietnam	189
Italy	97
Hong Kong	73
Taiwan	48
Indonesia	38
Korea	32
Others	83

### 2023 SUPPLY CHAIN LOCALISATION RATE<sup>17</sup>

Vietnam	41.8%
Indonesia	17.0%
Bangladesh	14.0%
Philippines	6.7%

## RESPONSIBLE SUPPLY CHAIN

We have established the Supplier Qualification & Approval System to standardise our process of selecting, auditing, and on-boarding our suppliers. During the reporting year, our suppliers are re-categorised in alignment with our major brand customer and product categories of Luxury, Fashion, Sport, and Casual. Further, we upgraded the supplier scoring system to include 7 performance criteria: product quality, production progress, unit cost, sample delivery time, sample quality, R&D capacity, and Environmental & Social related performance. The evaluation results differentiate suppliers based on their respective core competencies. Our brand customers can select suppliers that are ranked competitively in the corresponding criteria based on their own need and business nature.

To promote transparency and traceability in our supply chain, our suppliers are now required to provide Transaction Certificates as per our brand customers' requirements on materials, such as cotton. We strive to leverage our influence to advocate an ethical and sustainable supply chain by incorporating social responsibility and sustainability into the entire process.

<sup>17</sup> The localisation rate is calculated by dividing the number of local suppliers used by the total number of suppliers.

In addition to monitoring the impact of business activities on the surrounding environment, the Group is conscious of the social impact in the value chain which has a substantial influence on the prosperity of the community. There are considerable social challenges to tackle such as ensuring a safe working environment, business ethics, diversity in the workplace, the prevention of child labour, responsible use of local resources, and the maintenance of high corporate and professional standards. Proactive management throughout the value chain is essential. We require our suppliers to consent to the Supplier Social Responsibility Commitment, where they agree to comply with ESG-related national and local laws and regulations and to align their operation practices with Stella's standards.

### **SUSTAINABLE LEATHER SOURCING**

The production of leather at the farm level can potentially lead to significant environmental and social repercussions, despite being often perceived as a co-product of nature. Recognising the nuanced impacts of activities like ranching, which can alter natural ecosystems and involve the use of contaminating fertilisers and chemicals, Stella is committed to reshaping the narrative around leather sourcing through responsible practices.

Stella is dedicated to ensuring that leather is sourced in the most responsible and sustainable manner possible. Our commitment extends beyond mere compliance, and we actively work with suppliers to enhance traceability and transparency in our products. By engaging with suppliers, we aim to mitigate risks associated with social and environmental repercussions linked to leather production.

Having traceability of raw materials in Stella's supply chains is an essential step towards mitigating risks associated with social and environmental repercussions. Stella is aware that improving supply chain traceability is challenging, thus we are engaging with our suppliers to make progress in this area. Stella is cognisant of its responsibility to educate suppliers on the environmental and social impacts of the materials and chemicals they provide and is dedicated to help them in reaching the high standards of responsible raw material procurement established by Stella and our brand clients.

Stella gives preference to certified raw materials suppliers. We require all suppliers to produce or purchase sustainable leather and verify compliance. Collaboration with suppliers who earned leather certification against the most stringent criteria such as the Leather Working Group (LWG) is prioritised. We also encouraged our suppliers for sole, fabrics, metal and other fitting parts to obtain certification issued by Global Recycle Standard (GRS).

#### **CERTIFICATION STATUS OF CORE SUPPLIERS IN 2023**

<b>Type</b>	<b>Certification</b>	<b>Certified</b>
Leather	LWG	100%
Fabric	GRS	88%
Polyurethane Leather	GRS	90%
Sole	LWG/GRS	57%

## RESPONSIBLE MATERIAL CHOICES

In a world where material choices profoundly impact the environment, Stella Group is committed to responsible material selection. Our dedication goes beyond compliance; it is a proactive effort to identify and prioritise alternative materials that exhibit a lower environmental impact compared to traditional counterparts.

This commitment aligns with our vision for a more sustainable future, where each material decision is a step towards reducing our ecological impact. By leveraging research, innovation, and industry collaborations, we aim to integrate materials that align with our sustainability goals.

### GLOBAL RESPONSIBLE SOURCING AND PROCUREMENT POLICY – HIGHLIGHTS<sup>18</sup>

**Objective:** The Global Responsible Sourcing and Procurement Policy outlines Stella’s standards for suppliers in relation to environmental and social impacts and serves as a workplace guideline for the Group’s sourcing and procurement practices.

**Scope:** The Policy is designed to support all suppliers and our business partners across the global, to ensure our sourcing and procurement practices contribute to the development of a more sustainable global community.

**Summary:** We aim to provide guidance to all our suppliers to act in an ethical, responsible and sustainable manner through reference to this Policy. We will prioritise suppliers that demonstrate a strong commitment to social responsibility and terminate our cooperation with those who do not. Our efforts are focused on the most salient issues identified, which will be reviewed regularly. At raw material sourcing and procurement level we prioritise our efforts on:

- Labour and community;
- Use of natural resources;
- Product traceability;
- Land conservations and biodiversity;
- Carbon footprint and climate change;
- Business ethics; and
- Credit ratings & records.

<sup>18</sup> The Policy is extracted partially for disclosure purpose.

**SUPPLY CHAIN INTEGRITY**

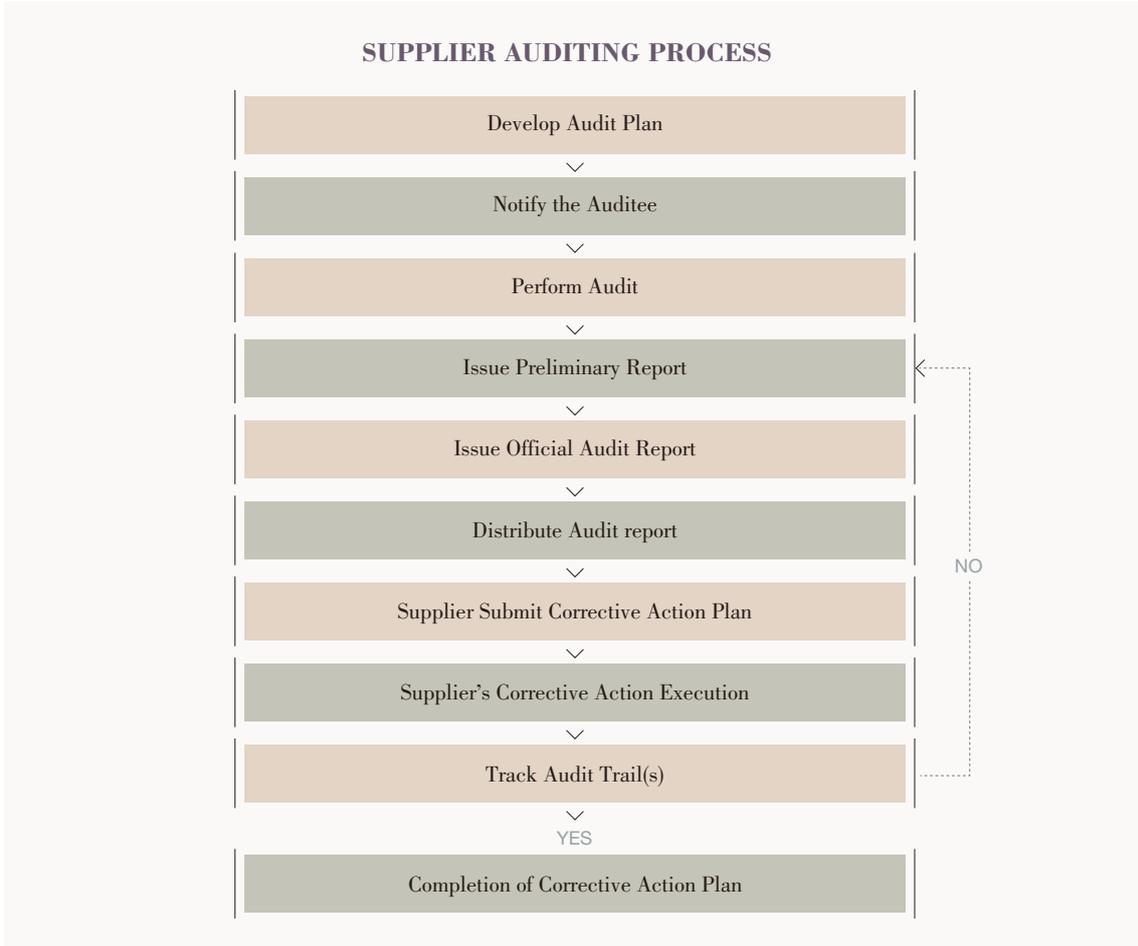
We act in accordance with the Code of Conduct when dealing with our suppliers. During the procurement process, all of our suppliers must adhere to principles of fair competition and avoid any form of conflict of interest. Suppliers are required to consent to integrity-related commitments upon signing a business contract with us.

Our employees and suppliers are expected to refrain from and prevent all forms of corruption, extortion and bribery. They are expected to report any acts of corruption, extortion or bribery to the Group via all channels available to them. For suppliers who violated our Code of Conduct, their supplier contract can be terminated.

During the Reporting Period, there was no non-compliance case in relation to anti-corruption-related laws and regulations in our supply chain.

**SUPPLY CHAIN RISK MANAGEMENT**

Most of our suppliers are nominated by our brand customers, and have already been evaluated and screened by the respective brand's rigorous ESG KPIs. However, we continue to review our suppliers' sustainability performances regularly with the established Supplier Scoring System to ensure their compliance with the Group's standards, where interviews are conducted with relevant personnel and data verification checks are performed. The performance review covers their business performance, compliance status, environmental management, product quality and other associated ESG factors. During the Reporting Period, we have reviewed 100% of the suppliers we placed order with.



The Group also conducts audits to evaluate the supplier’s Environmental and Social responsibility performance. If any deficiencies are discovered during our on-site audits, Stella’s auditing team will issue an Audit Report with a list of deficiencies to the delinquent supplier, and they are required to acknowledge receipt of the report. The supplier will then be required to submit an improvement or corrective action plan with supporting documents such as photos of remedied violations. Guidance on our expectations and any necessary assistance will be extended to these suppliers to facilitate their performance improvement. We will perform a follow-up audit to ascertain that the issues have been effectively remedied. Suppliers who failed the audit will have their contract reviewed and potentially terminated. During the Reporting Period, 5 suppliers were removed from our core suppliers list owing to unsatisfactory audit results. The remaining supplier has submitted a corrective action, and as a result, their status is currently under suspension pending the implementation of the corrective measures.

## CUSTOMER SERVICE AND COMPLAINT HANDLING

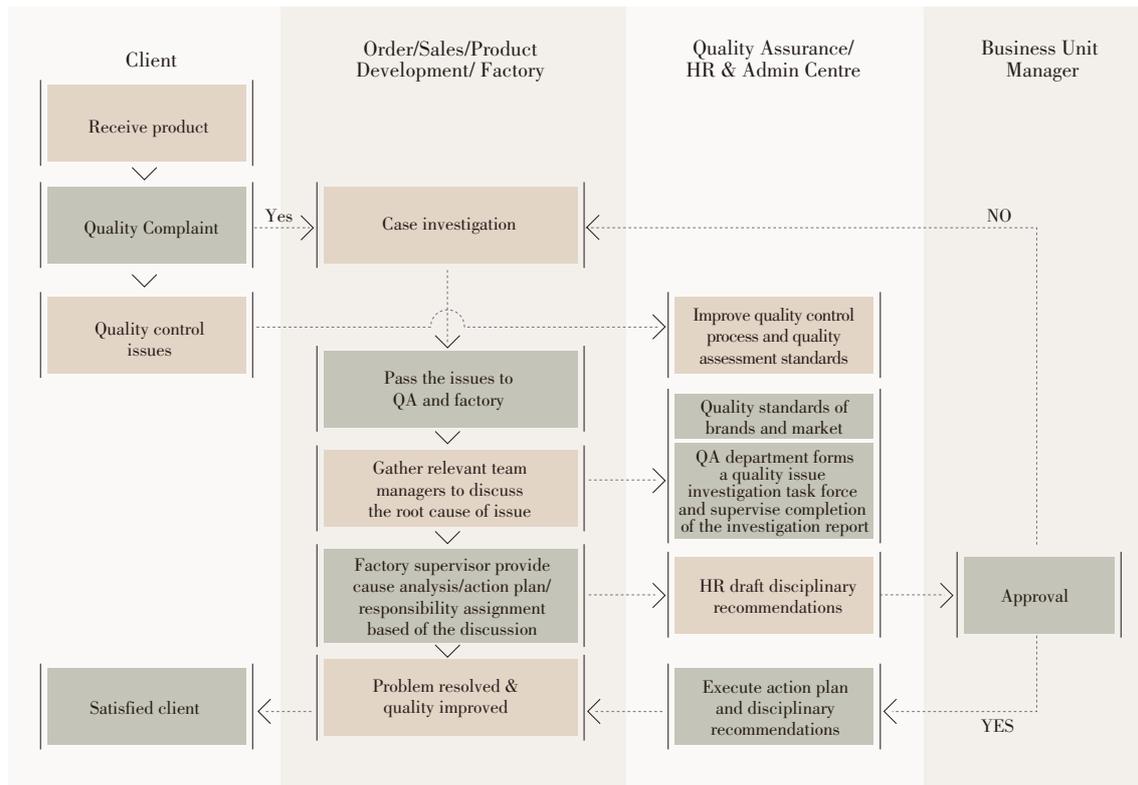
### CUSTOMERS FEEDBACK CHANNELS

We pride ourselves with the high-quality products and excellent services that we provide to our brand customers. Brand customers conduct product advertising in line with their operational strategies and relevant regulations, we strive to be their most trusted partner through empathy, responsiveness, and dependability, guaranteeing advertised product quality is fulfilled.

As the products we manufactured are not sold directly to end consumers, we focus on the requirements of our brand customers. An efficient customer handling procedure has been established to effectively address and manage any brand customers' complaints. We have also begun establishment of a quality complaint standard. During the Reporting Period, we did not receive any substantial complaint relating to product health and safety nor did any product recall relating to the aforementioned issues take place.

Upon receiving quality-related complaints from our brand customers, we promptly launch an internal investigation to identify the root cause of the issue. Subsequently, our Quality Assurance team will develop an action plan to address each aspect of our production process. Prior to approving or resume production, relevant teams are required to conduct a thorough review to ensure the identified problem has been effectively resolved and production quality can meet customer's required standards.

### CUSTOMER COMPLAINT HANDLING WORKFLOW



## **CUSTOMER SATISFACTION MEASUREMENT AND CONTINUOUS IMPROVEMENT**

The Group recognises the importance of engaging our brand customers to allow continuous improvement in our products and services. Many of our brand customers have established their own rating systems, and we are proactive in familiarising ourselves with their rating criteria and standards. By engaging with them to promptly address customer concerns, we not only demonstrate our commitment to customer satisfaction but also gain valuable insights that contribute to the improvement of our products and overall customer experience.

In the event of underperforming aspects, we are dedicated to establishing task forces to specifically address any identified issues and work towards improving our performance in accordance with our brand customers' standards and expectations. This collaborative approach ensures that we continuously strive to meet and exceed the expectations of our brand customers, thereby fostering stronger and more mutually beneficial partnerships.

## **CUSTOMERS' PRODUCT DATA PRIVACY**

### **DATA PRIVACY POLICIES AND PRACTICES**

The Group is committed to protecting personal privacy and information of all personnel and business entities which we have business dealings with, including suppliers, customers, and employees. We strictly comply with relevant laws and regulations<sup>19</sup> in the regions we operate in when collecting, storing, processing, transmitting and sharing personal information.

We have developed a comprehensive system for managing intellectual properties to prevent any violations or infringements of third-party intellectual property rights, patents, and related rights. There were no reported cases of intellectual property rights violations during the Reporting Period.

Under the leadership of the Group's Information Security Committee, an information security management system is established with reference to the Information Security Policy in accordance with the ISO 27001:2013 standard, encompassing all facets of information management.

<sup>19</sup> The relevant laws and regulations include the Law on the Protection of Consumer Rights and Interests of the People's Republic of China, the Cyber Information Security Law of Vietnam, Personal Data Protection Act of Taiwan and other related laws and regulations.

## DATA SECURITY MEASURES

We have implemented a range of measures to uphold strong information security protection, encompassing data privacy management, fraud prevention, network usage security controls, and safeguarding remote connections. We do not sell manufactured products to end consumers directly, and thus have no access to consumer data. In addition, we only collect necessary data and information by lawful and ethical means. Our emphasis lies on preventing data leakage or unauthorised use through secure data storage practices, stringent protection of our data center, and meticulous control over access rights to personal data.

Key enhancements in 2023 include:

- Upgrading firewall to bolster information security
- Strengthening endpoint protection mechanisms and establishing an information security protection platform
- Prohibiting the use of third-party social communication software on company computers and devices
- Managing information system permissions
- Executing system vulnerability scanning operations
- Encrypting cross-site data backup transmissions
- Encrypting product and design image files

To keep our customers informed, we communicate their data privacy rights, the purposes of data collection and how their data is used and protected.

# ACHIEVE SMART OPERATION

At the heart of Stella's strategic vision lies the principle of "Smart Operation," a concept that intertwines the Group's unyielding commitment to sustainability and its ethos as a responsible corporate entity. "Smart Operation" is defined by Stella's pursuit of leveraging digital solutions to magnify operational efficiency and effectiveness, without compromising the integrity of its craftsmanship. By weaving advanced technology into the fabric of its work processes and establishing a resilient digital backbone, Stella is on a mission to augment its workforce's capabilities, enabling smarter, more efficient practices, and fostering decision-making that is anchored in data-driven insights and scientific precision.

## Innovation Highlights

**ESG**  
Data Platform

**IOE**  
System

**OIC**  
Dashboards

**CIS**  
Cloud Inspection System

## DIGITAL INTEGRATION

### DIGITAL TRANSFORMATION STRATEGY

Our “Smart Stella” initiative is the cornerstone of our digital transformation strategy, embodying the “One Stella, Smart Stella” ethos. It embraces a data-centric mindset, and propels us to optimise our operations through real-time analytics, ensuring efficiency and collective success. Our approach is clear: to be a single, intelligent entity where technology elevates our sustainable journey. With a focus on digital integration, we plan to harness technologies such as artificial intelligence and IoT to drive cohesion and innovative growth throughout the Group. This unified strategy not only reinforces our dedication to sustainable progress but also positions us to adapt to the evolving industry landscape.

#### OPERATIONS & INTELLIGENCE CENTRE (OIC Dashboards)

The OIC (Operational Intelligence Control) smart programme, introduced in 2022, enhances operational efficiency through real-time data visualisation. The core of the programme is the OIC dashboards, which are strategically placed above production lines to deliver crucial performance metrics to line leaders and management instantaneously.

These dashboards present live data on production speed, downtime, output quality, and more, enabling quick identification and resolution of any issues. They make complex data easily understandable, leading to faster decision-making and immediate corrective actions. This not only reduces downtime but also fosters continuous process improvement.



As of the end of 2023, the OIC system has been successfully installed in 2 China factories and 3 Vietnam factories, with over 30 dashboards deployed across assembly lines.

## INTERNET OF EQUIPMENT (IOE) SYSTEM

Stella's Internet of Equipment (IOE) system is our innovative approach to Total Productive Maintenance (TPM), designed to refine equipment management and streamline maintenance scheduling.

This system breathes digital life into our machinery, assigning unique digital IDs that form comprehensive profiles for each piece of equipment. These profiles facilitate meticulous planning for maintenance and amortisation, while also maintaining detailed records of all maintenance activities. By 2023, Stella successfully networked 4,020 assets, equating to 6% of our total equipment, into the IOE framework across seven of our factories in China and Vietnam.

The adoption of the IOE system not only enhances the longevity and reliability of our equipment but also ensures that maintenance operations are conducted with greater foresight and efficiency. With this digital infrastructure in place, we are poised to realise improved equipment performance, reduced downtime, and a more streamlined production process, fully aligned with our Smart Stella vision.



## **CHANGE MANAGEMENT**

At the core of our change management approach is the belief in continuous learning, which we regard as an essential strategy component. We believe that ongoing education empowers our workforce to confidently navigate and excel in an increasingly digital world. Our goal is to cultivate a culture where employees are proficient and assured in the use of new digital tools and methodologies, embodying the “One Stella, Smart Stella” ethos.

Integral to our transformative agenda is the harmonisation of systems and data streams, which facilitates a unified flow of information and collaborative synergy across various departments. This unity is crucial for eliminating operational silos and enhancing interdepartmental cooperation, ensuring that the Stella enterprise moves forward as a cohesive whole.

Acknowledging the pivotal role of continuous learning in achieving our objectives, Stella actively conducts targeted training programmes aligned with each newly introduced smart initiative. These training sessions are meticulously designed to furnish our employees with the skills and insights needed to thrive in a digital-first environment, thereby reinforcing the “One Stella, Smart Stella” vision where collective growth and digital dexterity are intertwined.

## **OPERATION OPTIMISATION**

### **PRODUCTION AND MANUFACTURING ENHANCEMENT**

Stella’s dedication to manufacturing excellence propels our adoption of advanced technologies and optimise production processes. This strategic integration enhances precision and elevates efficiency, reimagining the shoemaking craft while upholding the premium quality and craftsmanship our customers have come to expect.

In tandem with the technological advancements in our manufacturing plants, we are equally invested in our greatest asset — our employees. We have instituted comprehensive training and skill development programmes to amplify the capabilities of and expertise of our workforce. These programmes are meticulously designed to align with the latest industry standards, empowering our team to excel in their roles and adapt to new technologies. By fostering a culture of learning and professional growth, we ensure that our employees are not just keeping pace with the innovation in shoemaking but are also the driving forces behind it.

## MANUFACTURING SKILLS TRAINING

At Stella, we translate our commitment to employee development into tangible results. During the reporting period, 87% of our production line employees received role-specific skills training. Some outstanding employees could even share their knowledge with others.

Along with Stella Leadership Standard and LEAN principles, we also provided management tools via training to leaders on-site. For instance, the Seven Wastes training helps leaders identify the different wastes on the production line and discuss possible solutions with colleagues. This training strengthens our production capacities, allows our employee can continuously grow and become the key drivers of operational optimisation.



Continuous improvement is woven into the fabric of Stella International's ethos, integrated by our enduring spirit: "making the best shoes." We are relentless in our pursuit of productivity and the reduction of deficiencies. Our initiatives focus on analysing workflow, identifying areas for enhancement, and implementing solutions that drive efficiency. By maintaining a steadfast commitment to refining our practices, we not only uphold the Stella standard of quality but also reinforce our reputation as an industry leader in shoemaking. Through these concerted efforts, we continue to honour the Stella's spirit, crafting footwear that stands the test of time and trend.

## CLOUD INSPECTION SYSTEM

In alignment with our dedication to crafting the finest shoes and to drive productivity while reducing deficiencies, Stella has launched the new Cloud Inspection System (CIS) in 2023. This initiative is designed to consolidate and streamline information management across the Group. By integrating real-time data on the assembly line, including statistical data, visuals, and video feeds, we have developed a comprehensive and cohesive view of our production landscape. The use of intelligent, graphical representations of data, accessible on mobile devices, empowers our personnel to quickly understand and respond to the immediate conditions of our production locales and helps us overcome the challenge of our operations spanning over multiple regions.

Our China factories had led the way in adopting this system at the end of 2023, paving the way for extending these advancements to our facilities in other regions in the coming year. This heightened accessibility and insight not only enhances the flexibility and efficiency of our management practices but also ensures that immediate, data-driven actions can be taken to address any operational challenges and driving the stringent oversight of our product quality.



## SUSTAINABILITY DEVELOPMENT AND INVESTMENT

### SUSTAINABILITY STRATEGY

In the dynamic and ever-evolving business landscape, sustainability has transcended from a 'nice-to-have' to a 'must-have' for organisations committed to thriving in the long run. Stella has not merely embraced this paradigm shift; it has woven sustainability into the very fabric of its corporate identity, understanding that sustainable development is pivotal not only for environmental stewardship but also for the enduring success of the business.

Our commitment to sustainability extends far beyond compliance; it is a fundamental acknowledgment that adopting a sustainable approach can drive innovation, enhance operational efficiency, and provide a competitive edge in the marketplace. Stella sees sustainability as a strategic imperative, an integral part of its DNA that guides every decision and action towards building a resilient and enduring business model.

Our sustainable blueprint is a testament to our core values of caring, cooperation, and innovation. Caring for the environment and communities is embedded in our rigorous sustainability standards that govern our operations. Cooperation is at the heart of our culture, fostering teamwork not only within our organisation but also with our partners, suppliers, and customers, creating a collective force to achieve sustainability goals. Innovation acts as the catalyst in this blueprint, driving the adoption of smart technologies and renewable energy sources.

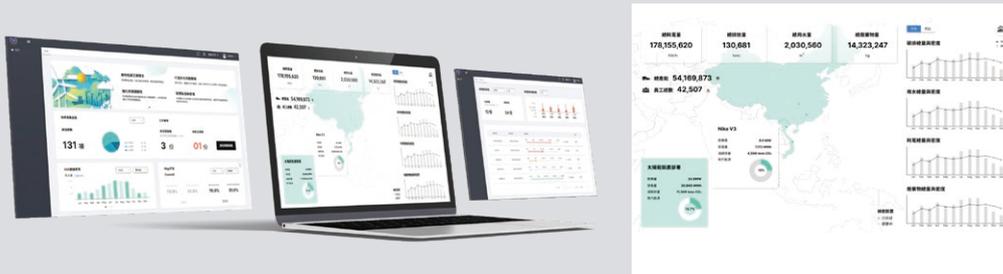
Recognising that the bedrock of any successful organisation is its people, Stella places a strong emphasis on improving people management approaches. Our strategy involves creating a workplace that nurtures employee growth, well-being, and satisfaction. By doing so, Stella not only invests in its workforce but also cultivates a culture of sustainability that employees carry forward in their roles. The integration of sustainability principles into the heart of our people policies ensures that our commitment to sustainability is echoed in the actions of our team, creating a collective force driving towards a greener, more equitable, and sustainable future.

## ESG DATA PLATFORM

In 2023, Stella introduced an ESG Data Platform to streamline the collection and analysis of our environmental, social, and governance data. This platform serves as a centralised hub for collecting, monitoring, and visualising ESG data, it also allows for the design of tailored metrics and performance tracking across Stella’s facilities. Standardised data collection processes enhance accuracy, while data visualisation quickly identifies anomalies in resource consumption for efficient investigation.

Positioned as a cornerstone of our digital infrastructure, we anticipate the platform will equip management with holistic insights into Stella’s ESG performance. This will further support informed decision-making, enhance operation transparency and traceability, and drive progress towards a more sustainable future.

Looking forward, we also plan to start integrating the platform with existing systems and devices. This integration will automate data collection, reducing the need for manual input and progressively minimising data errors.



## ABOUT THIS REPORT

### REPORT PROFILE

Stella Group strives to fulfil its mission of providing outstanding workmanship, while also maintaining our corporate obligations and advocating for sustainability. The Environmental, Social and Governance Report (referred to as the "Report") aims to offer all our stakeholders a summary of our strategies, policies, and accomplishments in the areas of environmental, social, and governance (ESG) practices.

## ABOUT THIS REPORT

### REPORTING STANDARD

This Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) in Appendix C2 of Listing Rules on The Stock Exchange of Hong Kong Limited, with reference to Sustainability Accounting Standards Boards Standards (the “SASB Standards”), and Task Force on Climate-related Financial Disclosure Recommendations (the “TCFD Recommendations”).

### REPORTING PRINCIPLES

Stella adheres to the four fundamental reporting principles outlined in the ESG Reporting Guide while preparing the report. These principles enhance effective communication and guide our ESG-related decision-making. The following are the specifics:

- **Materiality:** Through stakeholder engagement and materiality assessment, ESG issues pertinent to our operations and stakeholders have been identified. This Report focuses primarily on the 21 significant ESG issues identified during the Reporting Period.
- **Quantitative:** Key Performance Indicators regarding environmental and social aspects are defined for data collection whenever feasible. Historical data will be quantified for illustration of the Group’s performance in an objective way.
- **Balance:** All current practices and future plans regarding material ESG issues are reported in a transparent and balanced manner to provide an unbiased view on the Group’s ESG performance.
- **Consistency:** For meaningful comparisons of the ESG performance across financial years, the methodology in this Report is consistent with the previous years. Any changes will be annotated for readers’ reference.

### REPORTING SCOPE

This is the second annual standalone ESG report of Stella International Holdings Limited. The Report covered all manufacturing locations, in the PRC, Vietnam, Indonesia, Bangladesh and Philippines, unless specified otherwise.

We report our Corporate Social Responsibility practices and performance in accordance with ESG issues that are material to the Group for the period from 1 January 2023 to 31 December 2023 (the “Reporting Period”, “Financial Year 23”).

## **ACCESSIBILITY OF THE REPORT AND FEEDBACK**

An electronic copy of this report can be accessed on our website at <http://www.stella.com.hk/>. For any enquiries about the report or opinions regarding the Group's ESG performance, please feel free to put enquiries (i) in writing to the Company's registered office in Hong Kong (Flat C, 20/F, MG Tower, 133 Hoi Bun Road, Kowloon, Hong Kong) for attention to the Company Secretary or (ii) by email at [stella@stella.com.hk](mailto:stella@stella.com.hk) or (iii) (for shareholders of the Company only) by attending the Company's annual general meeting or extraordinary general meeting.

## **REPORTING APPROVAL**

The Board of Directors of the Group (the "Board") has overall responsibility for Stella's ESG strategy and reporting.

This report was reviewed and approved by the Board on 20 March 2024 to ensure there are no false record or misleading descriptions.

## **MATERIAL ESG TOPICS**

We recognise that achieving a balance between internal and external perspectives is essential for identifying and addressing ESG problems that are important to our business and our stakeholders.

A materiality assessment offers a foundation upon which to refine Stella's "One Stella, Smart Stella" sustainability blueprint, interact with stakeholders and investors, strengthen the risk management framework, and enhance ESG-related disclosures.

## **MATERIALITY ASSESSMENT**

The management and employees of various departments from the Group were participating in the preparation of this Report, which included supporting the Group to examine its operation approach, identification of significant ESG issues, and assessment of their significance to our business and our stakeholders.

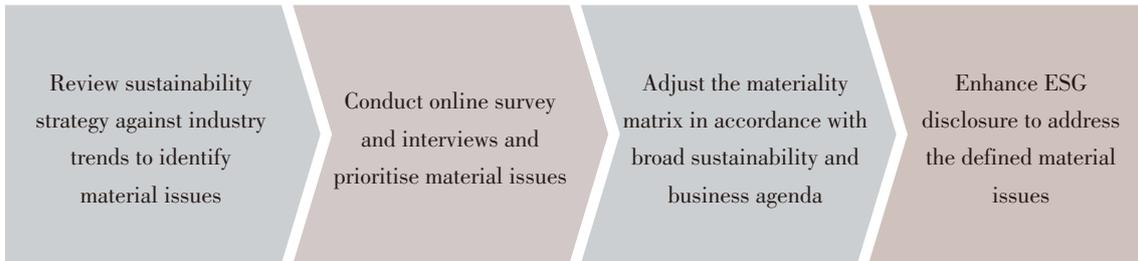
In 2022, we conducted comprehensive materiality reviews desktop research on industry megatrends and global peers to gather the latest insights into sustainability strategies within the global shoe manufacturing industry. These insights were then synthesized into a materiality matrix.

In the Financial Year 23, Stella further collaborated with an independent consultant to conduct a stakeholder engagement and materiality assessment. The primary objectives were to enhance the materiality matrix and gain a profound understanding of key stakeholders' perspectives regarding the development of our ESG strategies and their expectations related to our four sustainability pillars.

**2023 SUSTAINABILITY PILLARS**



Different stakeholders, including members of the Board of Directors, employees from various department, investors, suppliers, contractors, service providers, and customers were involved in the materiality assessment via online surveys. Ranking issues according to their perceived significance importance to society, the environment and, for employees, the perceived impact on our business. Key stakeholder representatives were invited to interviews to gather quality feedback and capture in-deep opinion. The results of online survey and interviews would be combined to conduct prioritisation of ESG issues materiality and update the materiality matrix.



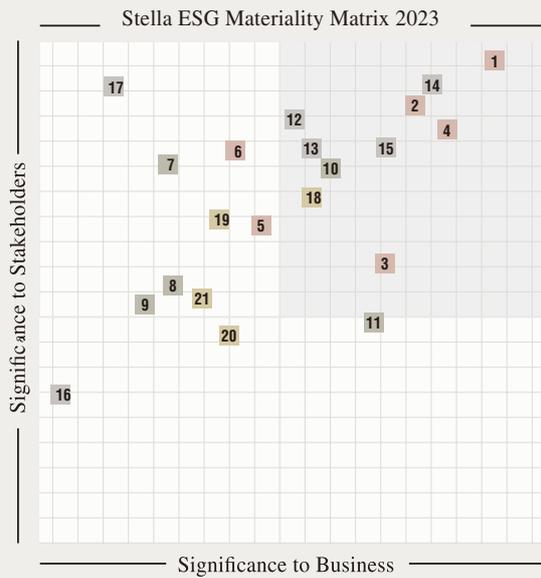
The assessment has identified critical environmental, social, and governance risks and opportunities that are pivotal considerations for both internal and external stakeholders when making business decisions. Stella is fully committed to implementing comprehensive improvements in alignment with the highlighted areas, demonstrating our dedication to addressing key concerns and capitalising on opportunities that contribute to sustainable and responsible business practices.

**MATERIAL ESG ISSUES**

We categorised the priority areas identified via benchmarking and comparison exercise into four pillars. The table below highlights the ESG issues deemed relevant to the Group and the Report is formulated in accordance with the issues below.

**MATERIAL ISSUES OF STELLA**

**MATERIALITY MATRIX**



No.	ESG Issues	Materiality
1	Product Quality	★★★
2	Customer Service and Complaint Handling	★★★
3	Supply Chain Management	★★★
4	Economic Performance	★★★
5	Customers' Product Data Privacy	★★
6	Corporate Governance, Compliance and Anti-corruption	★★★
7	Energy Efficiency and Carbon Footprint Reduction	★★★
8	Climate Change Mitigation and Adaptation	★★
9	Water Stewardship	★★
10	Chemical and Wastewater Management	★★★
11	Waste Management	★★
12	Workplace Engagement and Well-being	★★★
13	Employee Development and Training	★★★
14	Occupational Health and Safety	★★★
15	Labour and Human Rights	★★★
16	Community Investment	★
17	Diversity, Equity, and Inclusion	★★
18	Operation Optimisation	★★★
19	Sustainability Development and Investment	★★
20	Process Automation and Digital Integration	★
21	Sustainable Sourcing and Alternative Materials	★★

The list of material issues was approved by the Board, the Corporate Governance Committee and the Sustainability Development Committee. The list was converted into a matrix according to the importance to stakeholders and significance to our business. The matrix is subject to our constant evaluation and update, to guarantee its continued applicability to our business and stakeholders.

- Build a Resilient Supply Chain
- Create a Diversified Community
- Green and Low Carbon Manufacturing
- Achieve Smart Operation

# APPENDIX I — PERFORMANCE TABLE

## ENVIRONMENTAL RESPONSIBILITY PERFORMANCE<sup>20</sup>

	Units	Performance in 2022	Performance in 2023
<b>Greenhouse gas (GHG) emissions</b>			
Total GHG emissions <sup>21</sup>	tonnes of CO <sub>2</sub> equivalent (tonnes CO <sub>2</sub> e)	119,575	<b>111,771</b>
Direct GHG emissions (Scope 1)	tonnes CO <sub>2</sub> e	3,892	<b>3,847</b>
Indirect GHG emissions (Scope 2)	tonnes CO <sub>2</sub> e	115,683	<b>107,924</b>
GHG emission intensity	kg CO <sub>2</sub> e/per pair of shoes	2.173	<b>2.163</b>
<b>Energy consumption<sup>22</sup></b>			
Total energy consumption	GJ	657,114	<b>631,506</b>
Electricity	kWh	164,005,950	<b>151,846,399</b>
Natural gas <sup>23</sup>	m <sup>3</sup>	23,883	<b>28,399</b>
Diesel	litres	639,939	<b>938,027<sup>24</sup></b>
Petrol (Unleaded)	litres	451,714	<b>289,948</b>
LPG	GJ	98,515	<b>102,162</b>
Renewable energy	kWh	6,311,160	<b>9,613,258<sup>25</sup></b>
Energy consumption intensity	GJ/per pair of shoes	0.012	<b>0.012</b>

<sup>20</sup> During the Reporting Period, the Group updated its collection process of environmental related data. We have been working to improve our data management to lay a solid foundation of tracking and reporting the progress made against our environmental targets.

<sup>21</sup> The carbon emission is calculated with reference to the Greenhouse Gas Protocol published by World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), Report Guidelines on Environmental Key Performance Indicators issued by the Hong Kong Stock Exchange, the Baseline Emission Factors for Regional Power Grids in China published by the Department on Climate Change of National Development, Reform Commission and the Baseline Emission Factors for Power Grids by the Ministry of Energy and Mineral Resources of Indonesia and IGES Grid Emission Factors for Vietnam, Bangladesh and the Philippines.

<sup>22</sup> The energy category covers the main energy types that the Group consumed during our operations and excluded the energy consumption that the Group cannot directly control.

<sup>23</sup> The scope of the data has been expanded to include canteen usage.

<sup>24</sup> The increase in diesel consumption was due to the operation of emergency generators.

<sup>25</sup> The increase in renewable energy directly correlates to the expansion of rooftop solar panel infrastructure.

	Units	Performance in 2022	Performance in 2023
<b>Water consumption</b>			
Total water consumption	m <sup>3</sup>	1,745,160	<b>1,799,216<sup>26</sup></b>
Water intensity	m <sup>3</sup> /pair of shoes	0.032	<b>0.035</b>
<b>Waste handling</b>			
Non-hazardous waste <sup>27</sup>	tonnes	11,160	<b>11,400</b>
Hazardous waste	tonnes	1,086	<b>769</b>
Total waste generation	tonnes	12,246	<b>12,169</b>
Waste intensity	kg/per pair of shoes	0.223	<b>0.236<sup>28</sup></b>
<b>Use of packaging material</b>			
Use of packaging materials <sup>29</sup>	tonnes	27,155	<b>23,422</b>
Usage intensity	kg/per pair of shoes	0.494	<b>0.453</b>

<sup>26</sup> The increase in water consumption was attributed to leaks in two factories during the first half of the reporting year, which have been identified and repaired in the second half of the year.

<sup>27</sup> Non-hazardous waste generated by the Group was mainly leather, metal, paper, and cartons in 2023.

<sup>28</sup> The increase in waste intensity was attributed to the increase in more complex shoe models and the associated required accessories.

<sup>29</sup> During the Reporting Period, the packaging materials used by the Group were mainly paper in the form of shoe boxes, packing papers, carton boxes and shoe stretchers.

**EMPLOYMENT STATISTICS<sup>30</sup>**

	Units	Performance in 2022	Performance in 2023
Total workforce <sup>31</sup>	number of people	42,507	<b>39,850</b>
<b>Total workforce by employment contract</b>			
Permanent	number of people	42,507	<b>39,850</b>
Contract	number of people	0	<b>0</b>
<b>Total workforce by gender</b>			
Male	number of people	8,559	<b>8,165</b>
Female	number of people	33,948	<b>31,685</b>
<b>Total workforce by age group</b>			
18–30	number of people	13,024	<b>11,569</b>
31–50	number of people	26,953	<b>25,478</b>
51 or above	number of people	2,530	<b>2,803</b>
<b>Total workforce by employment category</b>			
Senior management	number of people	12	<b>12</b>
Middle management	number of people	785	<b>558</b>
General staff	number of people	41,710	<b>39,280</b>
<b>Total workforce by geographical region</b>			
China <sup>32</sup>	number of people	11,993	<b>9,747</b>
Asia (excluding China) <sup>33</sup>	number of people	30,514	<b>30,103</b>

<sup>30</sup> During the Reporting Period, the Group updated its collection process of employment practice related data. We have been working to improve our data management to lay a solid foundation of tracking and reporting the progress made against our environmental targets.

<sup>31</sup> Total Number of Employees refers to the number of employees of the in-scope business units under the Environmental, Social and Governance Report as of 31 December of the respective year.

<sup>32</sup> Includes Mainland China, Taiwan, Hong Kong and Macau.

<sup>33</sup> Includes Vietnam, Indonesia, Bangladesh, Philippines, and others.

	Units	Performance in 2022	Performance in 2023
<b>Employee turnover rate by gender</b>			
Male	%	50.3%	<b>5.9%</b>
Female	%	27.2%	<b>16.0%</b>
<b>Employee turnover rate by age group</b>			
18–30	%	75.0%	<b>9.9%</b>
31–50	%	11.3%	<b>10.1%</b>
51 or above	%	28.7%	<b>1.8%</b>
<b>Employee turnover rate by geographical region</b>			
China	%	34.5%	<b>7.4%</b>
Asia (excluding China)	%	30.8%	<b>14.4%</b>

	Units	Performance in 2022	Performance in 2023 <sup>34</sup>
<b>Percentage of employees trained by gender</b>			
Male	%	98.0%	<b>97.1%</b>
Female	%	97.9%	<b>98.2%</b>
<b>Percentage of employees trained by employee category</b>			
Senior management	%	25.0%	<b>100%</b>
Middle management	%	16.9%	<b>78.1%</b>
General staff	%	99.5%	<b>97.9%</b>
<b>Average training hours by gender</b>			
Male	hours	5.7	<b>18.9</b>
Female	hours	5.2	<b>19.3</b>
<b>Average training hours by employee category</b>			
Senior management	hours	3.9	<b>32.3</b>
Middle management	hours	2.4	<b>20.4</b>
General staff	hours	3.6	<b>19.2</b>

	Units	Performance in 2021	Performance in 2022	Performance in 2023
<b>Occupational Health and Safety</b>				
Case of work-related fatalities	number of cases	0	0	<b>1<sup>35</sup></b>
Rate of work-related fatalities	%	0	0	<b>0.0025%</b>
Loss of workdays due to industrial injuries	number of days	2,978	2,305	<b>2,533</b>
<b>Turnover rate over the past 3 years</b>				
Staff turnover rate	%	23.5%	31.9%	<b>21.8%</b>
<b>Strikes or lock-out events over the past 3 years</b>				
Number of strikes or lock-outs events	cases	0	0	<b>0</b>

<sup>34</sup> In FY2023, we introduced LEAN principles on employee training.

<sup>35</sup> During the reporting period, a fatal work-related accident involved equipment, resulting in the tragic loss of an employee. Preventive plan has been implemented and stated in "Occupational Health and Safety" section.

**OPERATION PRACTICES PERFORMANCE**

	Performance in 2022	Performance in 2023
<b>Number of suppliers by geographical region</b>		
Mainland China	799	<b>669</b>
Hong Kong	79	<b>73</b>
Vietnam	235	<b>189</b>
Italy	99	<b>97</b>
Korea	38	<b>32</b>
Other Asian regions	173	<b>86</b>
Other European regions	23	<b>0</b>
American regions and others	21	<b>83</b>
<b>Performance review conducted to suppliers</b>		
Percentage of suppliers received performance review	100%	<b>100%</b>
<b>Percentage of total products sold or shipped subject to recalls for safety and health reasons</b>		
Percentage of products recalled	0	<b>0</b>
<b>Number of concluded legal cases regarding corrupt practices brought against the Group or our employees</b>		
Total number of legal cases regarding corrupt practices	0	<b>0</b>

# APPENDIX II — HKEX ESG Reporting Guide Content Index

Subject Areas, Aspects, General Disclosure and KPIs		Sections/Remarks
<b>A. Environmental</b>		
Aspect A1: Emissions		
General Disclosure	Information on: <ul style="list-style-type: none"> <li>(a) the policies; and</li> <li>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.</li> </ul>	Energy Efficiency And Carbon Footprint Reduction
A1.1	The types of emissions and respective emissions data.	Appendix I — Performance Table
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	Appendix I — Performance Table
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	Appendix I — Performance Table
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g., per unit of production volume, per facility).	Appendix I — Performance Table
A1.5	Description of emission target(s) set and steps taken to achieve them.	Climate Change Mitigation And Adaptation
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.	Waste Management

Subject Areas, Aspects, General Disclosure and KPIs		Sections/Remarks
<b>Aspect A2: Use of Resources</b>		
<b>General Disclosure</b>	Policies on the efficient use of resources, including energy, water and other raw materials.	Energy Efficiency And Carbon Footprint Reduction  Chemical And Wastewater Management  Water Stewardship
A2.1	Direct and/or indirect consumption by type (e.g., electricity, gas or oil) in total (kWh in '000s) and intensity (e.g., per unit of production volume, per facility).	Appendix I — Performance Table
A2.2	Water consumption in total and intensity (e.g., per unit of production volume, per facility).	Appendix I — Performance Table
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Green and Low Carbon Factory Vision
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.	Water Stewardship
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Appendix I — Performance Table
<b>Aspect A3: The Environment and Natural Resources</b>		
<b>General Disclosure</b>	Policies on minimising the issuer's significant impact on the environment and natural resources.	Energy Efficiency And Carbon Footprint Reduction  Chemical And Wastewater Management  Climate Change Mitigation And Adaptation  Waste Management
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Energy Efficiency And Carbon Footprint Reduction

Subject Areas, Aspects, General Disclosure and KPIs		Sections/Remarks
<b>Aspect A4: Climate Change</b>		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change Mitigation And Adaptation
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.	Energy Efficiency And Carbon Footprint Reduction  Chemical And Wastewater Management  Climate Change Mitigation And Adaptation  Waste Management  Water Stewardship
<b>B. Social</b>		
<b>Aspect B1: Employment</b>		
General Disclosure	Information on:  (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Labour And Human Rights
B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Appendix I — Performance Table
B1.2	Employee turnover rate by gender, age group and geographical region.	Appendix I — Performance Table

Subject Areas, Aspects, General Disclosure and KPIs		Sections/Remarks
<b>Aspect B2: Health and Safety</b>		
<b>General Disclosure</b>	Information on: <ul style="list-style-type: none"> <li>(a) the policies; and</li> <li>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.</li> </ul>	Occupational Health And Safety
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Occupational Health And Safety Appendix I — Performance Table
B2.2	Lost days due to work injury.	Occupational Health And Safety Appendix I — Performance Table
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Occupational Health And Safety
<b>Aspect B3: Development and Training</b>		
<b>General Disclosure</b>	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employee Development And Training
B3.1	The percentage of employees trained by gender and employee category (e.g., senior management, middle management).	Appendix I — Performance Table
B3.2	The average training hours completed per employee by gender and employee category.	Appendix I — Performance Table
<b>Aspect B4: Labour Standards</b>		
<b>General Disclosure</b>	Information on: <ul style="list-style-type: none"> <li>(a) the policies; and</li> <li>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.</li> </ul>	Labour And Human Rights
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour And Human Rights
B4.2	Description of steps taken to eliminate such practices when discovered.	Labour And Human Rights

Subject Areas, Aspects, General Disclosure and KPIs		Sections/Remarks
<b>Aspect B5: Supply Chain Management</b>		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
B5.1	Number of suppliers by geographical region.	Appendix I — Performance Table
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management
<b>Aspect B6: Product Responsibility</b>		
General Disclosure	Information on:  (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Not applicable to the core business of Stella as we do not sell product to end consumers, yet we ensure that applicable regulations are complied
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Appendix I — Performance Table
B6.2	Number of products and service-related complaints received and how they are dealt with.	Not applicable to the core business of Stella as we do not sell product to end consumers, yet we have explained the handling approach in the section of Customer Service And Complaint Handling
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Quality
B6.4	Description of quality assurance process and recall procedures.	Product Quality
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Customer Service And Complaint Handling

Subject Areas, Aspects, General Disclosure and KPIs		Sections/Remarks
<b>Aspect B7: Anti-corruption</b>		
<b>General Disclosure</b>	Information on: <ul style="list-style-type: none"> <li>(a) the policies; and</li> <li>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.</li> </ul>	Sustainability Governance
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.	Appendix I — Performance Table
B7.2	Description of preventive measures and whistle blowing procedures, how they are implemented and monitored.	Sustainability Governance
B7.3	Description of anti-corruption training provided to directors and staff.	Sustainability Governance
<b>Aspect B8: Community Investment</b>		
<b>General Disclosure</b>	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
B8.1	Focus areas of contribution (e.g., education, environmental concerns, labour needs, health, culture, sport).	Community Investment
B8.2	Resources contributed (e.g., money or time) to the focus area.	Community Investment

# APPENDIX III — SASB CONTENT INDEX

## INDUSTRY STANDARD FOR APPAREL, ACCESSORIES & FOOTWEAR

Sustainability Metrics		Sections/Remarks
<b>Management of Chemicals in Products</b>		
CG-AA-250a.1	Discussion of processes to maintain compliance with restricted substances regulations.	Chemical and Wastewater Management
CG-AA-250a.2	Discussion of processes to assess and manage risks or hazards associated with chemicals in products.	Chemical and Wastewater Management
<b>Environmental Impacts in the Supply Chain</b>		
CG-AA-430a.1	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits or contractual agreements.	Chemical and Wastewater Management
CG-AA-430a.2	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition’s Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment.	Product Quality
<b>Labour Conditions in the Supply Chain</b>		
CG-AA-430b.1	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labour code of conduct, (3) percentage of total audits conducted by a third-party auditor.	Supply Chain Management
CG-AA-430b.2	(1) Priority non-conformance rate and (2) associated corrective action rate for suppliers’ labour code of conduct audits.	Supply Chain Management
CG-AA-430b.3	Description of the greatest (1) labour and (2) environmental, health and safety risks in the supply chain.	Supply Chain Risk Management
<b>Raw Materials Sourcing</b>		
CG-AA-440a.3	(1) List of priority raw materials; for each priority raw material: (2) environmental or social factor(s) most likely to threaten sourcing, (3) discussion on business risks or opportunities associated with environmental or social factors and (4) management strategy for addressing business risks and opportunities.	Sustainable Leather Sourcing
CG-AA-440a.4	(1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental or social standard, by standard.	Sustainable Leather Sourcing
<b>Activity Metrics</b>		
CG-AA-000.A	Number of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1	Supply Chain Management



Stella International Holdings Limited  
九興控股有限公司\*

Incorporated in the Cayman Islands with limited liability  
於開曼群島註冊成立之有限公司

*\* for identification purpose only*