



ESG due diligence report

FARO

Series A investment round
October 2026

1 – Purpose of this report

The purpose of this ESG due diligence report is to provide a comprehensive assessment of FARO Fashion Limited (FARO)'s environmental, social, and governance (ESG) practices to ensure that the company's operations align with Novastar's principles of responsible investing and to identify material non-financial risks and opportunities that may impact the company's long-term viability and attractiveness as an investment.

2 – Business overview

Problem	Global fashion brands carry more than \$1 trillion of overstock and returns each year, around 40% of it apparel, and roughly 30% is written off. Brands must choose between discounting visibly in their core markets, which erodes brand value, and destroying stock, which the EU now bans for unsold textiles. In South Africa, rising fuel prices and cost-of-living pressure have cut discretionary spending. Lower-middle-income consumers still want aspirational brands but cannot afford them at full price, and incumbent retailers are responding with heavy discounting and store closures.
Company & solution	FARO is solving this problem by buying branded overstock and customer returns in bulk, directly from global brands and e-commerce platforms. It sells them in physical stores in South Africa at a discount to the recommended retail price. Because FARO sells only offline, in a non-core market, brands can clear stock without damaging their pricing elsewhere. An in-house reconditioning hub and a proprietary, AI-driven operating system for allocation, pricing and markdown let FARO absorb whole stock files, including returns and damaged items. The result is an affordable route to branded fashion that diverts surplus garments from destruction.
Company stage	Innovating
Geographies	22 trading stores across South Africa and a distribution centre in Central Park, Cape Town
ESG leadership	FARO has established an ESG management framework, with responsibility allocated at the executive level. The Chief Supply Chain Officer oversees environmental matters, while the Head of People & Culture is responsible for social matters, supported by external advisers
Business model	FARO operates a technology-driven, store-only off-price model. It buys all stock outright (no consignment) and retails at a discount to RRP
Employees/Workers	FARO employs 404 people, 64% of them women.
Key suppliers	FARO's supply base combines global brands and e-commerce platforms with local logistics and property partners.
Customers	FARO's customers are lower-middle-income, brand-aware South African consumers, for whom the realistic alternative is value retailers such as Mr Price and PEP.
ESG experience to date	FARO has established an ESG management framework, with responsibility allocated at the executive level. The Chief Supply Chain Officer oversees environmental matters, while the Head of People & Culture is responsible for social matters, supported by external advisers. While this provides a solid foundation for ESG oversight, the framework remains relatively informal: FARO does not yet have a formal Environmental and Social Management System (ESMS) and has not previously been subject to an Environmental and Social Action Plan (ESAP). Existing policies include behavioural standards handbooks for stores and the DC, a disciplinary framework (zero tolerance for harassment and bribery), an Ethics & Integrity Policy, a DC Health & Safety Policy, and leave, remuneration and delegation-of-authority policies. FARO holds an Employment Equity compliance

certificate and a COIDA letter of good standing. It has also completed a Scope 1–3 GHG inventory, published an impact report for February 2025 to February 2026, and taken part in the EMC life-cycle assessment commissioned by Novastar.

3 – Executive summary

Investment policy conformance

FARO neither operates nor intends to operate in any of Novastar’s excluded business activities. The company will sign onto Novastar’s Mandatory Provisions and ESG Action Plan. Furthermore, Novastar will hold a board seat and an observer seat, which will provide visibility into the company’s adherence to these commitments.

Overall ESG risk assessment

Environmental and social risk

B

Medium – low risk

Activities with limited potential adverse social or environmental impacts that are site-specific and readily addressed through well-known mitigation measures.

Environmental and Social: The contextual and business-level environmental and social (E&S) risks underpinning the rationale for this rating are detailed in Section 4 (E&S Focus Areas). FARO is classified as a Category B (Medium-Low Risk) business, reflecting the presence of moderate but manageable environmental, social, and governance (ESG) risk.

FARO’s operations trigger IFC Performance Standards 1–4, supporting its Category B (Medium-Low) risk classification. PS5–8 are not triggered, as operations involve no land acquisition or displacement, impacts on biodiversity or natural habitats, Indigenous Peoples, or cultural heritage.

4 – Detailed ESG assessment

Scope of review and methodology

Applicable environmental and social laws and standards	• IFC Performance Standards [ifc.org/ps1-8] • IFC Corporate Governance document [ifc.org/corp_gov] • BII Good Practice Note on GBVH [bii.co.uk/GBVH]; Supply Chains [fintoolkit.bii.co.uk/supply-chains] • The Multilateral Development Banks guidelines on Business Integrity [MDB-General-Principles-for-Business-Integrity-Programmes] • ILO Core Conventions • Basic Conditions of Employment Act 75 of 1997 (BCEA) and National Minimum Wage Act 9 of 2018 • Labour Relations Act 66 of 1995, including sections 198A–198D on temporary employment services and fixed-term contracts • Employment Equity Act 55 of 1998 and the Code of Good Practice on the Prevention and Elimination of Harassment in the Workplace (2022) • Occupational Health and Safety Act 85 of 1993 (OHSA) and Compensation for Occupational Injuries and Diseases Act 130 of 1993 (COIDA) • Protection of Personal Information Act 4 of 2013 (POPIA) • Consumer Protection Act 68 of 2008 and National Credit Act 34 of 2005 (relevant to FARO Connect) • National Environmental Management: Waste Act 59 of 2008 • Companies Act 71 of 2008, Prevention and Combating of Corrupt Activities Act 12 of 2004, and Customs and Excise Act 91 of 1964
Documents reviewed	• FARO shared a data room that included documents relevant to ESG. • FARO completed the Novastar ESG and impact due diligence questionnaire, with more than 150 questions across all key areas of ESG. • We also reviewed FARO's Impact Report (February 2025 – February 2026), its Scope 1–3 GHG inventory, employment contracts, lease agreements, the insurance schedule and the Environment Matters statement.
Site visits and interviews	Site inspection comprising visual observations of relevant areas and meetings: Brian Odhiambo, Partner and Dayo Oduleye, Investment Associate visited FARO's operations in Cape Town from 27 to 31 July 2026. They visited the Central Park distribution centre and reconditioning hub, toured stores, spoke to customers and employees and observed the opening day of the Canal Walk store. Interviews with relevant stakeholders: the Novastar team held six sessions with FARO's management, covering commercial and sourcing, warehouse and store operations, FARO Connect, and finance. They also spoke to existing investors. Further calls between December 2025 and August 2026 covered the founders (David Torr and William McCarren), the CFO (Katie Barry), the COO (Amber Penney) and the technology team (Dean Pienaar, CTO).
External consultation	We commissioned the Environmental Management Center (EMC), working with independent sustainability consultant Tim Coles, to carry out a life-cycle assessment (LCA) of FARO's garments against a new-garment baseline. Due to the company's medium-low E&S risk rating, we did not hire external consultants to separately assess wider ESG risk on behalf of Novastar.

Key focus areas for ESG due diligence

I. Environmental and social management system

FARO is a young, fast-scaling retailer with limited formal ESG experience. It is growing from 22 to around 30 stores by December 2026, relies on fixed-term and outsourced labour, and is adding new international supply lines. A formal ESMS is therefore critical to identifying, assessing and managing worker, supply chain and community risks consistently across a growing estate.

Environmental and social management system (ESMS):

- FARO does not currently have an established Environmental and Social Management System (ESMS), an E&S policy or an E&S risk register. The company describes a formal ESG management framework as "currently being established".
- FARO has foundational components in place: Employee Behavioural Standards Handbooks for stores and the DC, a Disciplinary Framework, an Ethics & Integrity Policy, a DC Health & Safety Policy, and remuneration, leave and recruitment policies.

ESG risk and impact identification:

- Operational risks are reviewed at a weekly EXCO and heads-of-department meeting, and the board reviews risk quarterly. However, E&S risks are not identified or assessed systematically, so some risks, particularly in the supply chain and across the store estate, may go unidentified.
- No ESG strategy, KPIs or action plans exist, and FARO has not previously had an ESAP.
- FARO has gone further than most companies at its stage on environmental measurement. It commissioned a Scope 1–3 GHG inventory, published an impact report for February 2025 – February 2026, and supported the Novastar-commissioned life-cycle assessment.

ESG risk management programs:

- FARO has no formal management programme, objectives or KPIs for E&S risks, and has not previously had an ESAP.

Organizational capacity, oversight and monitoring:

- ESG responsibility has been assigned at executive level: the Chief Supply Chain Officer (Thomas Lane) leads on environmental matters, and the Head of People & Culture (Ziningi Ntombela) leads on social matters, supported by external sustainability advisers.
- There is no dedicated ESG or compliance officer and no ESG training. There is also no board-level ESG oversight or reporting: no ESG committee, no dashboard and no periodic updates.

Emergency preparedness, stakeholder engagement and grievance:

- FARO's insurer surveyed all sites in March–April 2026 and recommended written evacuation plans, upgrades to fire detection and suppression, and electrical certificates of compliance. FARO is still evidencing closure of these recommendations and compiling a register of site certificates with its landlords.
- Employees have a four-step grievance process (line manager, HR, written grievance, CCMA) with confidentiality and anti-victimisation protection. Customer complaints are tracked through reviews and email, escalated to area managers within 48 hours, and reviewed at the weekly management meeting.
- FARO has no stakeholder engagement plan and no external grievance or whistleblowing mechanism for contractors, communities or supply chain workers.
- Management has shown strong openness to building proportionate ESG governance, including through the ESAP.

Conclusion: Marginal. Developing a proportionate ESMS and E&S risk register, formalising ESG ownership with board-level oversight, and closing the insurer's emergency-preparedness recommendations are the foundational ESAP priorities (PS 1.1, PS 1.5, PS 1.6, PS 1.7).

II. FA1 – workforce engagement and labour standards

FARO employs 404 people, 64% of them women, across 22 stores, the Central Park DC and reconditioning hub, and head office. Most store staff are on fixed-term contracts, and casual DC labour is supplied through a temporary employment service (TES). Key diligence questions:

What is the workforce composition by function and employment type (permanent, fixed-term, flexi and TES)?

Does store and DC pay, including commission, Sunday, public-holiday and overtime pay, meet the BCEA and the National Minimum Wage?

Are statutory registrations (UIF, COIDA, SDL, PAYE) in good standing, and are workers free to organise?

How are health and safety risks managed at the DC and reconditioning hub, and what does the incident register show?

What do turnover, absenteeism and labour disputes show?

Wages and benefits:

- FARO's Remuneration Policy uses Paterson grading with external benchmarking. Store commission is additive to guaranteed pay, so a shortfall in commission does not reduce pay below the contracted floor. Staff receive medical aid, access to a counselling app and a staff discount of up to 20%.
- The fashion consultant contract reviewed pays above the National Minimum Wage, and FARO confirms all stores are on the same rates. Novastar is confirming store payroll and how Sunday, public-holiday and overtime pay are calculated.

Statutory compliance and freedom of association:

- FARO holds a COIDA Letter of Good Standing (valid to 30 April 2027) and an Employment Equity Compliance Certificate (issued 15 January 2026). FARO also holds a SARS Tax Compliance Status PIN for good standing (issued 26 August 2026, expiring 26 August 2027), covering its PAYE reference, under which employer UIF and SDL contributions are paid.
- Workers are free to join a union, but the workforce is not unionised.

Health and safety:

- FARO's DC Health & Safety Policy is aligned with the Occupational Health and Safety Act. It covers PPE, forklift licensing, manual handling, evacuation drills, near-miss reporting, safety representatives and committees, and annual review. FARO reports three minor injuries and no insurance claims.
- FARO did not provide an incident log and does not keep a company-wide health and safety record book.

Turnover, disputes and third-party workers:

- Two CCMA matters were settled without admission of liability (January and May 2026), and there have been no Department of Employment and Labour findings. FARO runs a structured exit interview process but did not provide turnover or absenteeism data. Retention at the first store is strong: 12 of 15 original staff remain.
- FARO did not provide its contract with the TES and has no process for monitoring TES workers' pay, hours and safety.

Conclusion: Acceptable for direct employees, Marginal for contract terms and third-party workers. Recommendations include a legal review of the fixed-term contract, evidence of minimum-wage compliance across all stores, oversight of the TES, and a company-wide incident register (PS 2.1, PS 2.3, PS 2.4).

III. FA2 – consumer protection and responsible lending

FARO serves lower-middle-income customers, holds data on around 400,000 unique customers, and plans to launch FARO Connect, a rent-to-own mobile phone offering with a partner. Key diligence questions:

How do returns, refunds and defect claims work, and what are return rates and complaint volumes?

How will affordability and over-indebtedness be managed for planned consumer financing and FARO Connect?

How is customer data handled under POPIA across the WhatsApp CRM and loyalty app?

How are complaints escalated and resolved, and does FARO measure whether customers experience the "dignity" promise in store?

Returns, complaints and customer treatment:

- FARO operates a documented returns policy. Its return rate is around 5%, against an industry norm of around 10%, and it reports low complaint volumes.
- Reviews scoring below 3 stars are escalated to the area manager with a 48-hour response target, and email complaints go to the Head of Store Operations. Complaints received and resolved are reviewed at the weekly management meeting.
- Disrespect towards customers is a disciplinary offence under the Behavioural Standards Handbook.
- FARO did not provide complaint volumes or any measure of whether its "dignity" promise is experienced in store. It has not reviewed its compliance with the Consumer Protection Act.

Data privacy (POPIA):

- The CTO is FARO's registered Information Officer and handles data subject requests and breach notification. FARO obtains explicit opt-in consent for marketing through its loyalty programme and WhatsApp, actions opt-outs immediately and does not sell data. Data is held in its own systems on Amazon cloud infrastructure.
- No privacy policy and breach response plan in place

Responsible lending (FARO Connect):

- FARO consumer financing is planned rather than live, and no credit is currently extended. Financing would run through regulated partners using credit-bureau checks and National Credit Act affordability assessments, with separate screening by buy-now-pay-later (BNPL) providers.
- Target customers earn around R10,000–R35,000 a month, so the risk of over-indebtedness is material.

Conclusion: Marginal. FARO's core retail offer treats customers fairly. A privacy policy and breach response plan are needed (PS 1.3, PS 4.1).

IV. FA3 – supply chain

FARO buys branded stock outright from brands, e-commerce platforms, distributors and traders, with much of it manufactured in high-risk garment-producing countries. Key diligence questions:

What does the sourcing map look like: brands and authorised partners versus traders and aggregators, by volume and spend?

How is chain of custody and legal title documented, and how does FARO evidence that imported stock is new rather than restricted second-hand clothing?

Are supplier ESG standards set out in contracts, and how are counterparties screened (KYC, beneficial ownership, sanctions, PEP and adverse media)?

How are outsourced operations governed, and how would FARO respond if a supplying brand were implicated in a scandal?

Sourcing and chain of custody:

- FARO buys all stock outright, so title passes on purchase; it uses no consignment or sale-or-return. It sources through brand-direct agreements, e-commerce clearance, local distributors, and traders. It holds supply agreements with 17 major brands.
- FARO imports only new, unworn stock. It evidences this through contracts describing surplus new stock, through clearance documents filed via an appointed clearing agent, and through a per-unit condition record in its ERP.

Supplier ESG standards and screening:

- FARO has no supplier code of conduct and no ESG clauses in its supply contracts. It takes the view that production-stage impacts sit with the brands, since it does not commission manufacturing.
- FARO does not carry out formal know-your-counterparty, beneficial ownership, sanctions, PEP or adverse-media screening. Its controls are limited to separating vendor creation (buying) from payment authorisation (finance) and verifying bank details.

Outsourced operations and incident response:

- Transport and freight forwarding providers are contracted. However, FARO did not cover the TES, shopfitter, security or cleaning providers, or its audit and termination rights over contractors.

- FARO has a defined response if a supplying brand is implicated in a scandal: establish the facts, assess the affected stock, consider suspending purchasing, and escalate to the board where material.

Conclusion: Acceptable. Because FARO buys surplus that has already been produced, it does not cause or directly contribute to upstream impacts, and its brand-direct sourcing is well documented. However, the large share of spend through traders, combined with no supplier code and no counterparty screening, creates provenance, sanctions and reputational risk. Priority ESAP actions are a supplier code of conduct, risk-based KYC for traders and aggregators, and E&S clauses for key contractors (PS 2.4, PS 2.5).

V. FA4 – gender and gender-based violence prevention

FARO's workforce is 64% female, largely customer-facing, and works in public malls, often closing late. Key diligence questions:

What does gender representation look like across business units and leadership levels, and is gender-disaggregated data tracked?

What policies support gender equity, such as parental leave, flexible work and women in leadership?

Are there GBVH policies, risk assessments, grievance mechanisms and training, including for store staff and those who investigate incidents?

Does the grievance mechanism capture GBVH incidents involving customers, and is there a code of conduct for staff–customer interactions?

Gender representation and Equity:

- Women make up 64% of FARO's workforce and 57% of head office staff. They hold 3 of the 8 executive roles (COO, CFO and Chief Merchandise Officer), and lead Store Operations and People & Culture. FARO collects gender data at individual level, which underpins its Employment Equity reporting.
- The Leave Policy covers maternity, paternity, family responsibility and study leave, and the DC Handbook provides shared parental leave of four months and ten days, claimed through UIF. Pay ranges are reviewed every two years to support pay parity.
- Women own about 7% of FARO, and no gender split is available at store level.

GBVH prevention and response:

- The Disciplinary Framework treats harassment (including sexual harassment), abusive or discriminatory language, and assault as first-offence dismissible offences, after a formal hearing. Workplace relationships must be disclosed, and staff may not manage a partner or family member.
- FARO has not carried out a GBVH risk assessment. It provides no specific training to area managers, store managers or HR on receiving and investigating GBVH complaints and has no trauma-informed or survivor-centred procedures.
- FARO did not report what has come through its grievance channels and has no case data on harassment or discrimination.

GBVH risks in customer interactions:

- The signed Employee Handbook requires respect towards colleagues and customers, and applies zero tolerance to bullying, harassment and discrimination.
- The grievance mechanism covers employees only, and customer channels do not capture GBVH. There is no protocol for harassment of staff by customers, and no evidence of safety measures for staff closing stores and travelling home late.

Disability inclusion:

- No disability inclusion policy in place

Conclusion: Marginal. FARO's gender representation is strong, and its disciplinary rules take harassment seriously. However, GBVH prevention lacks a risk assessment, training, survivor-centred procedures and coverage of customer interactions. Priority ESAP actions are a GBVH policy aligned with the 2022 Code of Good Practice and BII guidance, training for managers and HR, and a safe-closing protocol for stores (PS 2.1, PS 4.1).

Benchmarking of the company's performance against ESG standards

IFC Performance Standard 1: Assessment and management of environmental and social risks and impacts

FARO does not yet have a documented ESMS, E&S policy or E&S risk register; ESG framework is "currently being established", which is not unusual at this stage. ESG responsibility sits at executive level with the Chief Supply Chain Officer (environmental) and the Head of People & Culture (social), supported by external advisers, but there is no dedicated ESG officer, no ESG training, no KPIs and no ESG reporting to the board. Employees have a four-step grievance process with anti-victimisation protection, but there is no stakeholder engagement plan and no external grievance or whistleblowing channel. FARO is ahead of its peers on measurement, having completed a Scope 1 to 3 greenhouse gas inventory, published an impact report and supported the life-cycle assessment Novastar commissioned.

IFC Performance Standard 2: Labor and working conditions

FARO employs 404 people, 64% of them women, with written contracts across all categories, a benchmarked remuneration policy, medical aid and commission that is additive to guaranteed pay. It holds a COIDA letter of good standing and an employment equity compliance certificate, and no workers are under 18. Gaps remain in three areas: fixed-term contract clauses need legal review against the Basic Conditions of Employment Act and sections 198A to 198D of the Labour Relations Act; the temporary employment service contract was not supplied and there is no oversight of those workers' pay, hours or safety, nor E&S clauses for contractors; and health and safety procedures, incident recording and emergency preparedness are documented only for the distribution centre, not across the store estate. Supply chain labour is the weakest point, with no supplier code of conduct or screening and a material share of spend through traders.

IFC Performance Standard 3: Resource efficiency and pollution prevention

The company buys finished branded surplus outright, reconditions it in-house and sells it through owned stores, diverting garments from destruction; the life-cycle assessment estimated emissions savings of around 94% per kilogram against new garments, and customer surveys indicate that FARO purchases displace roughly half of respondents' new-clothing spend. A Scope 1 to 3 inventory is complete, reporting 792.2 tCO₂e over February 2025 to February 2026, and no permits are required and no environmental incidents recorded. Key gaps are the absence of an energy-efficiency plan and reduction targets, and no record of where unsellable stock (around 2% of intake), unsold stock and packaging end up.

IFC Performance Standard 4: Community health, safety, and security performance

Stores sit within landlord-managed malls with central fire and security systems, and FARO carries public liability insurance, but openings draw heavy footfall, with no crowd-management plan agreed with mall management, and no policy on searches, use of force or the vetting and training of security personnel. FARO Connect, the planned rent-to-own phone offering with a partner, needs a regulatory perimeter assessment, no legal opinion exists on whether it falls within the National Credit Act, and the data implications of storing identity documents and bank statements needs to be clarified. The core retail offer treats customers fairly, with a documented returns policy and a 5% return rate against an industry norm of 10%, but no privacy policy or breach response plan is in place for around 400,000 customer records.

South Africa's fragility and conflict sensitivity assessment

South Africa's fragility context: South Africa is not on the World Bank's FY26 list of fragile and conflict-affected situations, but it is among the world's most violent and unequal middle-income countries, and the forms that violence takes bear directly on a mall-based, customer-facing retailer. Murder peaked at 45.2 per 100,000 in 2022/23 and has fallen for three years, yet 73% of serious assaults reported in early 2026 happened in homes, making gender-based violence the dominant driver. Unemployment above 32% sustains property crime, protest and periodic mass unrest: the July 2021 riots affected some 40,000 businesses and destroyed shopping-centre retail at scale. Most acutely, organised anti-immigrant mobilisation escalated through 2026, with attacks on foreign nationals and looting of foreign-owned shops in Pretoria, Johannesburg and Durban, and further rioting in Durban and Soweto in October 2026. Novastar's assessment therefore focused on violent crime across the store estate and distribution centre, civil unrest affecting leased mall premises, gender-based violence affecting a predominantly female and

late-trading workforce, and the exposure of FARO's foreign-national employees. FARO's first store at Promenade, Mitchells Plain, sits in a Cape Flats catchment with long-standing gang violence.

FARO's operations address several underlying drivers of insecurity. It employs 404 people, 64% of them women, in a labour market where roughly one in three adults is unemployed, creating entry-level retail and logistics work in lower-income catchments where formal employment is scarcest. Its core proposition, branded apparel at a discount below recommended retail price, answers cost-of-living pressure on the households it serves, and it employs foreign nationals on verified work authorisation in a labour market where migrant workers are increasingly excluded.

FARO has put in place the following systems that help workers and customers navigate these challenges:

- a four-step grievance process with confidentiality and anti-victimisation protection for all direct employees;
- a disciplinary framework treating harassment and assault as first-offence dismissible conduct, with behavioural standards handbooks for stores and the distribution centre;
- a health and safety policy at the distribution centre aligned with the Occupational Health and Safety Act, with safety representatives, PPE and evacuation drills;
- operations within landlord-managed malls with central fire and security systems, insurer surveys of all sites in March and April 2026 and public liability cover; and
- documented recruitment and vetting, work-authorisation verification, and customer complaints escalated to area managers within 48 hours.

In addition, the ESAP actions below, the emergency response plan covering crime and civil unrest, the crowd-management protocol, the GBVH risk assessment and safe-closing protocols, and the external grievance mechanism will enable the company to navigate conflict-affected situations and improve its practices as it scales.

5 – Environmental and social action plan (ESAP)

Performance standard	Risk	Mitigation measures	Risk significance	Responsible person	Expected deliverable	Deadline
IFC Performance Standard 1 – assessment and management of environmental and social risks						
IFC PS 1.1: environmental and social assessment and management system	No ESMS, E&S policy or E&S risk register; E&S risks not systematically identified; no ESG KPIs or board reporting.	Develop and implement an Environmental and Social Management System (ESMS) proportionate to FARO's size and risks, aligned with the IFC Performance Standards and South African law. The ESMS should include: • An E&S policy approved by the board and communicated to all staff • A structured process to identify and assess E&S risks across the DC and reconditioning hub, the store estate, the supply chain, FARO Connect and any new markets • Management programmes with objectives, KPIs and owners for each material risk • Regular monitoring and reporting of ESG performance to the board and Novastar	Medium	CSO, HPC	• E&S policy approved by the board • Documented ESMS framework and E&S risk register • Initial ESG performance report and evidence that the ESMS is in use (e.g. dashboards, tracking templates, meeting minutes discussing ESG performance)	31 Mar 2027 (policy and risk register) 30 Sep 2027 (full ESMS)
IFC PS 1.5: organisational capacity and competency	No dedicated ESG lead, ESG training or KPIs; ESG responsibilities informal and split across two executives.	Formalise ESG roles and responsibilities, building on the current executive ownership and assign a designated ESG lead who: • oversees ESG integration and compliance, and reports to the board and Novastar FARO staff with ESG responsibility should attend an onboarding session with the Novastar ESG team on ESG and business integrity matters, including reporting requirements. FARO must inform Novastar whenever the person responsible for ESG reporting changes.	Medium	CSO, HPC	• ESG roles and responsibilities matrix, covering executive and board roles • Board minute or delegation confirming ESG oversight at board level • Confirmed attendance at the Novastar onboarding session	31 Mar 2027

Performance standard	Risk	Mitigation measures	Risk significance	Responsible person	Expected deliverable	Deadline
IFC PS 1.6: emergency preparedness and response	Emergency preparedness documented only for the DC, not the stores; insurer survey recommendations still open; no crowd-management plan for store openings.	Develop an Emergency Response Plan covering the DC, the reconditioning hub and every store, including fire, evacuation, medical emergencies, crime and civil unrest. Coordinate with landlords' mall emergency procedures. - Close out all recommendations from the March–April 2026 insurer surveys, including electrical certificates of compliance, fire detection and suppression, surge protection and SANS 1186 signage - Complete a register of occupancy, electrical and fire certificates for all sites, held with landlords - Adopt a crowd-management plan for store openings and major promotions, agreed with mall management	High	COO, CSO	- Emergency Response Plan and site evacuation plans (OHSA / SANS 10400-T) - Insurer close-out confirmation and certificate register - Crowd-management SOP, used for the next store opening - Drill and training records.	31 Mar 2027
IFC PS 1.9: external communications and grievance mechanisms	No external or anonymous grievance and whistleblowing channel; no grievance data reported.	Establish a confidential grievance and whistleblowing mechanism, with an anonymous option, for employees, TES workers, contractors, customers and other stakeholders. - Make it accessible: in-store notices, WhatsApp, the website, and English plus relevant local languages - Protect complainants from retaliation, and provide an escalation route outside line management (e.g. to an independent director or board member) - Keep records of grievances and resolutions	Medium	HPC	- Documented grievance and whistleblowing procedure - Evidence of communication to staff, TES workers and customers - Grievance log or register, with a summary reported to the board quarterly	31 Mar 2027
IFC Performance Standard 2 – labour and working conditions						
IFC PS 2.1, 2.3 & 2.4: workers engaged by third parties and OHS	TES contract not supplied; no oversight of TES workers' pay, hours or safety; no E&S clauses in	Put in place oversight of workers supplied or employed by third parties:	Medium	HPC, COO	- TES contract and compliance verification - TES placement tracker	31 Mar 2027

Performance standard	Risk	Mitigation measures	Risk significance	Responsible person	Expected deliverable	Deadline
	contractor contracts; incident recording limited to the DC.	- Review the TES contract and verify the TES's registration, pay rates, hours and statutory contributions - Include minimum labour, H&S and anti-harassment clauses in contracts with the TES, the shopfitter, transport providers, and security and cleaning contractors, together with audit and termination rights - Develop a company-wide incident register			- Updated contractor contract template with E&S clauses - Incident register	
IFC PS 2.5: supply chain	No supplier code of conduct or screening; material share of spend through traders, with labour and provenance risks unchecked.	Develop and implement a supplier management system proportionate to an off-price buyer of finished goods: - Adopt a Supplier Code of Conduct covering forced and child labour, H&S, environmental compliance, anti-bribery and product provenance, and include it in supply contracts and purchase terms - Introduce risk-based KYC for new and existing traders and aggregators: beneficial ownership, sanctions, PEP and adverse-media checks - Verify the authenticity and provenance of stock bought from non-brand sources (e.g. brand authorisation letters, chain-of-custody documents) - Define consequences for non-compliance, from corrective action to disengagement	Medium	CSO, CMO	- Supplier Code of Conduct - KYC procedure and screening records for all traders and aggregators - Annual summary of supplier screening results	30 Jun 2027
Gender diversity & GBVH						
GBVH: internal GBVH system	No GBVH risk assessment, standalone policy or trained investigators; no case data on harassment.	Strengthen FARO's GBVH prevention and response system in line with the 2022 Code of Good Practice on the Prevention and Elimination of Harassment in the Workplace and BII's Good Practice Note on GBVH:	Medium	HPC	- GBVH risk assessment and policy - Training materials, attendance records and an annual training calendar	30 Jun 2027

Performance standard	Risk	Mitigation measures	Risk significance	Responsible person	Expected deliverable	Deadline
		- Carry out a GBVH risk assessment covering stores, the DC and night shifts - Adopt a standalone GBVH and harassment policy, integrated with the Disciplinary Framework, the Behavioural Standards Handbooks and the grievance mechanism - Provide specialised, trauma-informed training to the Head of People & Culture, area managers and store managers on receiving and investigating complaints - Roll out mandatory GBVH awareness training for all staff, including TES workers, at onboarding and annually Include anonymous reporting options and survivor-centred procedures			Description of anonymous reporting options	
GBVH: customer interactions and staff safety	Mainly female staff in customer-facing roles, often closing late in malls; no protocol for customer harassment or safe closing.	Strengthen safeguards for staff in customer-facing roles: - Adopt a protocol for handling harassment or abuse of staff by customers, including escalation to mall security - Adopt a safe-closing and late-shift protocol covering minimum staffing at close, coordination with mall security, and safe transport home Extend customer feedback channels so that harassment or safety incidents can be reported and escalated	Medium	COO, HPC	- Customer interaction and safe-closing SOPs - Evidence of staff briefings	31 Mar 2027
Gender Equity	No formal gender targets or store-level gender data; no disability inclusion policy.	Using benchmarks such as the 2X criteria, formalise gender equity targets and monitoring indicators at board, leadership, management, store-manager and associate levels. Collect gender data at store level and adopt a disability inclusion policy.	Low	HPC, Board	- Board-approved gender equity targets - Disability inclusion policy	31 Dec 2027

Performance standard	Risk	Mitigation measures	Risk significance	Responsible person	Expected deliverable	Deadline
IFC Performance Standard 3 – resource efficiency & pollution prevention						
IFC PS 3.1: resource efficiency	No energy-efficiency plan or emissions reduction targets; GHG figures need reconciling across disclosures.	Maintain and build on FARO's GHG and impact measurement: - Update the Scope 1–3 GHG inventory annually, reconciling figures between the impact report and other disclosures - Develop an energy-efficiency plan for stores and the DC, with reduction targets (e.g. LED lighting, HVAC controls, renewable procurement where available) - Report units diverted, displacement evidence (customer surveys with robust samples) and LCA-based avoided emissions annually	Medium	CSO	- Annual GHG inventory and impact report - Energy-efficiency plan and targets - Annual impact KPIs submitted to Novastar	Annually from 30 Jun 2027 (FY Feb 2027)
IFC PS 3.2: pollution prevention	No record of where unsellable stock (~2% of intake), unsold stock and packaging end up.	Track and report what happens to residual stock and waste: - Record the final destination of unsellable stock (~2% of intake) and of unsold stock sold to secondary vendors, e.g. by donation, recycling, downcycling or disposal - Contract licensed recyclers or textile-recovery partners for stock that cannot be resold - Track packaging waste and security-tag reuse	Medium	CSO	- Waste and residual-stock SOP - Agreements with recyclers or recovery partners - Waste data included in annual reporting	31 Mar 2027
IFC Performance Standard 4 – community health, safety and security						
IFC PS 4.1: consumer protection and responsible lending (FARO Connect)	FARO Connect's status under the National Credit Act unclear; no legal opinion or responsible-lending safeguards; POPIA risks from storing IDs and bank statements.	For FARO Connect, document: A legal opinion on whether the product, including rent-to-own, falls within the National Credit Act, together with any NCR registration needed by FARO or its partners	Medium	CEO, CFO	- Legal opinion (NCA, POPIA) - FARO Connect responsible-lending policy and customer disclosures	31 Mar 2027

Performance standard	Risk	Mitigation measures	Risk significance	Responsible person	Expected deliverable	Deadline
		- Responsible-lending safeguards: affordability assessments, transparent all-in pricing, cooling-off and early-settlement terms, and a fair collections code - A POPIA impact assessment covering the collection and storage of IDs and bank statements			FARO Connect KPIs (customers, arrears, defaults, complaints) reported quarterly	
IFC PS 4.1: data privacy	No privacy policy or data-breach response plan for ~400,000 customer records.	Strengthen data protection for FARO's ~400,000 customer records: - Publish a customer privacy policy - Develop and adopt a data-breach response plan in line with POPIA s22	Medium	CEO, CFO	- Published privacy policy - Documented data breach response plan	31 Mar 2027
Corporate Governance						
	Board composition and committees not yet formalised; limited structured reporting to the board.	Board composition following the Series A closing: formalise board membership, including Novastar's board seat.	Low	CEO, Board	Signed board resolution and updated MOI / articles reflecting board composition	Board resolution: at closing
		Share a quarterly board pack covering financial statements, cash flow, trading KPIs, FARO Connect KPIs and ESG metrics.	Low	CFO	Quarterly board pack, with an ESG dashboard	From Q1 2027
		Constitute an Audit & Risk Committee and an ESG committee (or a combined committee), with agreed terms of reference. Establish a related-party and conflicts-of-interest register.	Medium	Board, CFO	- Committee charter(s) and appointment of members - First meeting minutes shared with the board - Related-party and conflicts register	30 Jun 2027
Business Integrity						
	No standalone anti-bribery and corruption policy, compliance officer or	Develop a standalone Anti-Bribery and Corruption policy, consistent with PRECCA, with specific guidance on:	Medium	CFO, HPC	ABC and whistleblower policies	30 Jun 2027

Performance standard	Risk	Mitigation measures	Risk significance	Responsible person	Expected deliverable	Deadline
	training; exposure through customs, clearing agents and landlords.	• customs clearance and interactions with SARS • third-party agents (clearing agents, freight forwarders) • landlord negotiations and gifts Adopt a whistleblower policy linked to the grievance mechanism (PS 1.9), and designate a compliance officer. Provide initial training for all staff, including TES workers, on anti-corruption, anti-fraud and stock-loss integrity, with an annual refresher. Use case-based modules covering bribery, vendor collusion and customs red flags, and log completion certificates.			• Compliance officer appointment • Training materials, attendance and completion logs, and the annual refresher schedule	

Key: CSO – Chief Supply Officer, HPC – Head of People and Culture, CFO – Chief Finance Officer, CEO- Chief Executive Officer, COO – Chief Operating Officer, CMO – Chief Marketing Officer

6 – Monitoring and reporting mechanism between the investee and Novastar

Novastar's monitoring and reporting mechanism, outlined in ESMS Section 9.4 (and summarised below), applies to the investee, including keeping Novastar and GCF informed of its E&S performance and the ESS performance of activities using GCF proceeds.

The investee must provide all reports required under the ESAP, which also form part of the standard covenants in the legal documentation. This requires the investee to submit periodic reports on ESG matters, as well as any changes in corporate governance practices or ESMS.

Novastar will comply with all ESG reporting obligations to GCF. Novastar will also provide the Limited Partners (including GCF) with an Annual Monitoring Report summarising the ESG performance of each portfolio company. This includes execution of the ESAP, material and serious ESG incidents (with mitigating actions taken), and new ESG risks identified during the year.

The investee must immediately report any serious or unforeseen ESG issues, including incidents and accidents resulting in loss of life, material effect on the environment, human rights, or material breach of law, to the Fund. Novastar will, within three days of receiving a serious incident report from an investee, provide the Advisory Committee with a report of any serious incidents related to any investee that result in loss of life, material effect on the environment, material breach of law, or high-risk GBVH incidents.

Monitoring is anchored by Novastar's right to board representation, as well as the right to access and inspect an investee's books, offices, and sites as set out in the legal documentation. Novastar may employ various supervision methods depending on the risk category of the investee's business activities, with higher-risk investees subject to more intensive monitoring.

As part of the monitoring process, Novastar may conduct site visits and consider independent ESG audits, involving external consultants if necessary. The details of monitoring or supervision processes will be informed by issues identified during ESG risk assessment, ESG due diligence for new investees, or existing audits of current investees.

There are numerous ESG touchpoints during the investment period, which prompt monitoring and improvement. These include quarterly ESG performance monitoring, annual ESG compliance monitoring, portfolio company board meetings or ESG sub committee meetings, and serious incident reporting.

Novastar is a multi-round investor, making follow-on investments in portfolio companies that are performing well. These follow-on investments, which can occur every 18–24 months, provide a natural opportunity to review the company's ESG practices, address new and emerging risks, assess performance against the action plan, and set new action plans as the company enters a new stage of growth. ESG due diligence (including site visits where appropriate) will be conducted as part of the investment process, with an ESG report and ESAP submitted to the Investment Committee for approval.

For active companies where Novastar is no longer undertaking fresh ESG due diligence, monitoring visits will be conducted at the frequency detailed in the Novastar ESMS. These visits will be carried out by the Investment Lead or Head of Sustainability.