



COMPANY: Mainland Headwear Holdings Limited
COUNTRY: China
ASSESSMENT DATE: 12/03/12
MONITOR: Openview Service Limited
PRODUCTS: Accessories [items, such as handbag clasps, that are affixed to other products]
PROCESSES: Cut
NUMBER OF WORKERS: 2200
ASSESSMENT NUMBER: AA0000000148

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Understanding this Assessment Report

This is a report of a workplace assessment conducted by Fair Labor Association assessors following FLA's Sustainable Compliance methodology (SCI), which evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment life cycle.

This report identifies violations and risks of noncompliance with the Fair Labor Association Workplace Code of Conduct in its assessment of the employment functions, and includes a description of the root causes of violations, recommendations for sustainable and immediate improvement, and the corrective action plan for each risk or violation as submitted by the company. This document is not a static report; rather, it reflects the most recent progress updates on remediation in the "Progress Update" section for each finding.

Glossary

De minimis: a de minimis factory is a factory (1) with which the Company contracts for production for six months or less in any 24-month period; or (2) in which the Company accounts for 10% or less of the annual production of the facility. The FLA Charter states that in no event shall de minimis facilities constitute more than 15% of the total of all facilities of a Company, and the list of facilities designated as de minimis by a Company is subject to the approval of the FLA. Please note that collegiate-producing factories cannot count as de minimis.

Facility performance: how a facility rates in terms of a particular employment or management function, with 100% being the best possible score.

Fair labor standards: the minimum requirement for how workers should be treated in a workplace, as outlined in the [FLA Workplace Code of Conduct](#).

Employment life cycle: all aspects of an employee's relationship with the employer, from date of hire to termination or end of employment.

Code violation: failure to meet standards outlined in the FLA Workplace Code of Conduct in the workplace implementation of employment or management functions.

Company action plan: a detailed set of activities outlined by the sourcing company and/or direct employer to address FLA findings.

Employment functions: The different components of the relationship between management and employees in a factory. An employment function is a process regulating an aspect of the employment relationship, such as the recruitment of workers. All employment functions together constitute the employment relationship between an employer and an employee.

1. Recruitment, Hiring & Personnel Development (e.g., performance reviews)
2. Compensation (e.g., wages, health care)
3. Hours of Work (e.g., overtime, documentation of working hours)
4. Industrial Relations (e.g., collective bargaining agreements)
5. Grievance System (e.g., worker communication with management)
6. Workplace Conduct & Discipline (e.g., discrimination, harassment)
7. Termination & Worker Retrenchment (e.g., downsizing, resignation)
8. Health & Safety (e.g., exposure to chemicals)
9. Environmental Protection (e.g., energy saving)

Management functions: violations or risks related to an employment function could be caused by the absence – or a problem in the operation – of any one of the management functions or in more than one.

1. Policy
2. Procedure
3. Responsibility & Accountability
4. Review Process
5. Training
6. Implementation
7. Communication & Worker Involvement
8. Support & Resources (only for the in-depth level)

Finding: indicators of potential gaps between desired and actual performance of the workplace on different employment functions.

Finding type

- **Immediate action required:** discoveries or findings at the workplace that need immediate action because they not only constitute

an imminent danger, risk the workers' basic rights, threaten their safety and well-being or pose a clear hazard to the environment, but also are clear non-compliances with the FLA Workplace Code of Conduct and local laws. Examples include a finding by the assessor that crucial fire safety elements are not in place or that there is underpayment of wages and/or worker entitlements or that there is direct discharge of waste water, etc.

- *Sustainable improvement required*: findings that require sustainable and systematic actions. The factory will be asked to tackle the underlying root causes and to do so in a long-term and systematic manner to bridge the gap between actual and desired performance. Examples include a finding by the assessor that there is lack of termination policies and procedures in the workplace, lack of grievance system, etc.
- *Notable feature*: indicates a remarkable feature or best practice at a workplace. Examples might include workers' wages and benefits that are significantly above the industry average, or community benefits such as free daycare.

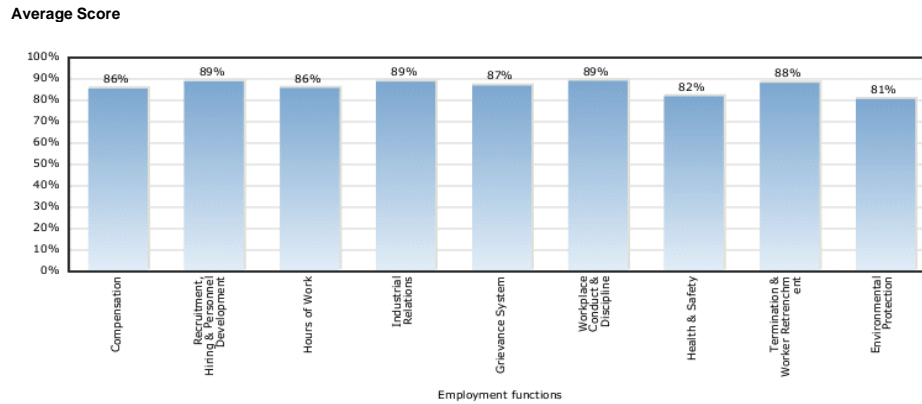
Local law or Code Requirement: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that the worker did not use the hearing protection equipment because such equipment was not provided by management. However, upon a more thorough evaluation of available information, the assessor might find that the worker was indeed supplied with hearing protection equipment and with written information about the importance of wearing hearing protection, but was not trained on how to use the equipment and that use of the equipment was not enforced in a consistent manner by management.

Uncorroborated Risk of Noncompliance: indicates a serious issue that has surfaced during the assessment, but one which the assessors were not able to corroborate through additional sources of information (e.g., allegation of retaliation against a worker by the factory management for participating in the assessment).

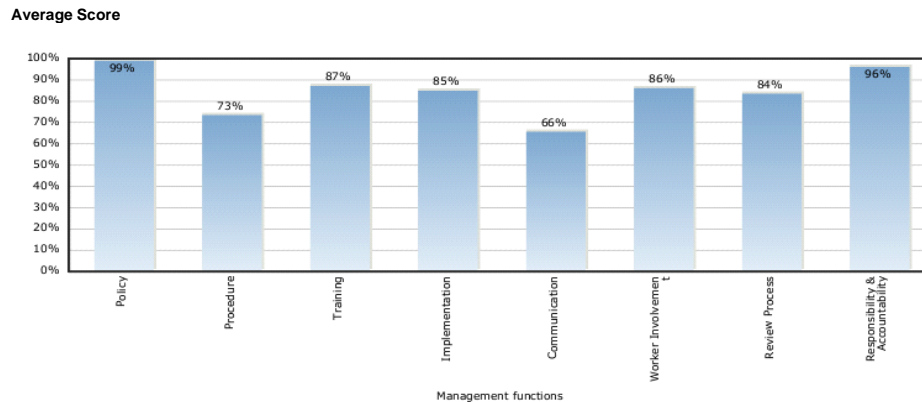
Score by Employment Function

Scores indicate a factory's performance related to a specific employment function based on an FLA assessment. A score of 100 percent indicates flawless operation of an employment function. A score of less than 100 percent indicates need for improvement.



Score by Management Function

Scores indicate a factory's performance related to a specific management function based on an FLA assessment. A score of 100 percent indicates flawless operation of a management function. A score of less than 100 percent indicates need for improvement.



Score Summary

Scores indicate the strength of management functions as they relate to different elements of the employment relationship (employment functions). For example (reading left to right), a score of 100 percent in the cell on the top left corner would indicate the existence of appropriate policies related to recruitment, hiring and personnel development.

Management Functions	Recruitment, Hiring & Personnel Development	Compensation	Hours of Work	Industrial Relations	Grievance System	Workplace Conduct & Discipline	Termination & Worker Retrenchment	Health & Safety	Environmental Protection
Policy	100%	100%	100%	83.25%	100%	100%	100%	100%	100%
Procedure	100%	70.45%	74.19%	0%	80%	100%	97.14%	67.31%	48.89%
Responsibility & Accountability	85.72%	100%	100%	100%	100%	100%	100%	100%	100%
Review Process	86.36%	77.27%	79.17%	90.91%	87.5%	86.36%	86.36%	86.36%	91.67%
Training	89.53%	91.3%	88.29%	93.55%	86.67%	85.26%	90.73%	78.59%	75.34%
Implementation	89.04%	84.51%	86.46%	92.86%	88.89%	100%	72.86%	84.11%	76.72%
Communication	56.25%	80%	56.25%	100%	61.11%	68.75%	55.56%	68.75%	81.43%
Worker Involvement	100%	N/A	N/A	100%	50%	N/A	N/A	87.5%	100%

Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

FLA Code Element
Compensation
Employment Relationship
Hours of Work
Health, Safety and Environment
Non-Discrimination

Findings and Action Plans

FINDING NO.1

POLICY & PROCEDURE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Per factory regulations and recruitment procedures, labor contracts either have: a) terms of 3 years or more or b) open-ended terms that provide for an extended probation period of 6 months. This regulation is in compliance with local legal requirements; however, FLA Workplace Code and Benchmarks state that the probation period limit is 3 months. In practice, the longest probation period noted was 3 months, as no long-term contracts were concluded with employees.
2. A systematic delay of 15 days was noted in the payment of wages. Reviewed payrolls indicated that wages were paid to employees on the 22nd day of each pay period. However, local law requires paydays to not be later than the 7th day after the last pay period.

Local Law or Code Requirement

Regulations of the Shenzhen Municipality on the Wage Payment to Employees, Article 11; FLA Workplace Code (Compensation Benchmarks C.1 and C.3)

Root Causes

1. The factory has conceptually misunderstood Shenzhen Municipality Regulations on Wage Payment to Employees, Article 11.
2. The factory's current operations were in compliance with the legal requirements of China Labor Contract Law, Article 19, which allows for an extended probation period of up to 6 months in both 3-year and open-ended employment contracts.

3. The factory did not review and update payment policies and procedures to ensure consistency with the current legal requirements.

COMPANY ACTION PLANS

1. The longest probation period in the recruitment policy has been modified to 3 months. This amendment has been posted on the notice board and informed all the employees during the training.

Action plan status: Completed
Planned completion date: 12/31/13
Progress update: 06/29/16 : Action Completed
Completion date: 12/31/13

2. All employees have been paid within 15 days after the last payment period. The account department of factory need time to calculate the wages. The process would be improved to shorten the payment date.

Any delay of the payment would be discussed with trade union and got their approval.

Action plan status: Completed
Planned completion date: 12/31/13
Progress update: 06/29/16 : Action completed
Completion date: 12/31/13

FINDING NO.2

COMPENSATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Although the factory has established written policies and procedures for marriage and bereavement leave, they kept no records related to these policies and procedures. Most interviewed workers also indicated that they do not know how to apply for paid marriage and bereavement leave.
2. Factory does not provide 100% of social insurance coverage on a systematic basis. For example, social insurance receipts from October 2012 indicate that all 2278 employees were provided with both work-related injury insurance and medical insurance. However, only 1888 employees (82.8%) were provided pension insurance, 3 employees were provided unemployment insurance, and 8 employees were provided maternity insurance.

Local Law or Code Requirement

China Labor Law, Article 73; FLA Workplace Code (Compensation Benchmarks C.1, C.5, and C.17)

Root Causes

1. Training on the marriage and bereavement leave policy for employees was conducted; however, it was not effectively communicated so that employees understood this policy.
2. The Chinese Social Insurance Law requires that all employees receive 5 types of social insurance: pension, medical, maternity, work-related injury, and unemployment insurance. However, only local Shenzhen employees can claim unemployment insurance benefits. Employees from other provinces would not be able to claim their unemployment benefits, even if they were registered and paid up.
3. Employees are not provided adequate support from the local government and assurance from their employers that the social insurance (paid in Shenzhen) will transfer to their pension funds in their hometown.
4. The social insurance system is under development; therefore, local governments have not been strictly monitoring compliance.

COMPANY ACTION PLANS

1. The marriage and bereavement policy has been stated in worker handbook. Training has been covered all employees to explain this policy.

Action plan status: Completed
Planned completion date: 12/05/13
Progress update: 06/29/16 : The training for all workers have been completed. The refresh training would be held annually.
Completion date: 12/05/13

2. 100% of employees have participated workplace injury, medical, and unemployment insurances. 75% of employees have participated old-age insurance. From March, the participation rate of maternity insurance has been increase to 100%. We plan to increase old-age pension by 10% every year until 100% covered. However, some workers are reluctant to join old-age pension, as most of them do not have faith in the current old-age pension. Since 2015, all new coming workers is mandatory to participate the old-age pension insurance unless they can show evidences that they have joined it in their home town. We will continue to encourage the workers to join pension insurance in monthly trainings. Related information/policy has been posted in the bulletin board.

Action plan status: Completed
Planned completion date: 12/05/13
Progress update: 06/29/16 : The social insurance trainings for all workers have been completed. The refresh training will be provided annually. All new workers have been requested to participate all 5 types social insurance.
Completion date: 12/05/13

FINDING NO.3

HOURS OF WORK

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. During every month of the review period (November 2011 to December 2013), approximately 70% of employees worked more than 36 hours per month of overtime. The maximum monthly overtime hours for a representative sample was 62 hours.

Local Law or Code Requirement

China Labor Law, Article 41; FLA Workplace Code (Hours of Work Benchmark HOW.1)

Root Causes

1. Production and capacity planning does not include safeguards to prevent workers from working more than 36 hours per month of overtime.

COMPANY ACTION PLANS

1. Reducing monthly working hours below 36 is very difficult in China factory. We would proceed it step by step. Factory would continue to improve the production efficiency in order to reduce the overtime working hours. We are now working on more accurate production planning to keep the weekly working hours below 60 hours.

Action plan status: Completed
Planned completion date: 12/05/13
Progress update: 06/29/16 : The weekly working hours has been reduced below 60.
Completion date: 12/05/13

FINDING NO.4

HEALTH AND SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Factory has 6 elevators operated by 1 licensed operator; this operator failed to submit their certificate to the local authority for annual surveillance by the October 12 due date.
2. The factory did not have a report on the inspection and acceptance of a completed construction project for: a) 2 8-storey production buildings, b) 2 5-storey dormitory buildings, and c) 2 6-storey dormitory buildings.
3. The factory did not have the report on the environmental impacts or on the registration form regarding the environmental impacts of the facility's construction.

Local Law or Code Requirement

Special Appliance Quality Safety Monitoring Regulation, Article 38; Management Regulation on Safety Training and Assessment for Special Operator, Article 21; China Environmental Impact Assessment Law, Articles 16 and 22; China Construction Law, Article 61; China Fire Prevention Law, Article 13; FLA Workplace Code (Health, Safety, and Environment Benchmarks HSE.1 and HSE.4)

Root Causes

1. Since the premises are rented, there is no due diligence by factory management to ensure that the premises' owners have obtained all the legally required certificates.
2. No procedures are in place for updating all permits/certificates as required by local law.
3. There is a lack of government enforcement regarding environmental protection laws.

COMPANY ACTION PLANS

1. The certificate of elevator operator has been renewed. It would be valid for 2 years.
We have organized a list to review all the expiry date of the certificate..

Action plan status: Completed

Planned completion date: 12/05/13

Progress update: 11/11/15 : The elevator operator license is valid now.

Completion date: 12/05/13

2. All 3 production buildings and 6 dormitories in the factory compound have the inspection and acceptance of certificate now.

Action plan status: Completed

Planned completion date: 12/05/13

Progress update: 11/11/15 : All 3 production buildings and 6 dormitories in the factory compound have the inspection and acceptance of certificate now.

Completion date: 12/05/13

3. We have already got the environmental impacts assessment for the factory

Action plan status: Completed

Planned completion date: 12/05/13

Progress update: 11/11/15 : Factory already got the environmental impacts assessment

Completion date: 12/05/13

FINDING NO.5

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The chemical management procedure is incomplete. For example, it does not have any guidelines on chemical disposal, the potential impact associated with the use of chemicals, and corresponding protection methods or tools.
2. Chemicals that are in use during daily operation are not well protected. For example, there was no secondary containment for 1 stored chemical barrel; 1 chemical barrel stored in the carton-making workshop was not clearly marked with safety labels; and no material safety data sheet (MSDS) was posted on 1 chemical barrel storage.
3. Training on chemical safety management is not sufficient.

Local Law or Code Requirement

The Regulation for Safety of Dangerous Chemical, Article 16; The Regulation of Chemical Safety Usage in Workplace, Articles 12 and 19; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1, HSE.2, HSE.9, and HSE.10)

Root Causes

1. Management did not establish effective procedures for the management of chemicals. Management team is not aware of the possible legal and financial consequences of work accidents.
2. Lack of training on chemical management and lack of effective monitoring on the implementation of chemical safety policies and procedures.

COMPANY ACTION PLANS

1. We have set up a list including all chemical storage area. We has installed the 2nd containment facilities in these areas. We also posted the MSDS at these areas and they would be checked regularly. Chemical containers are labelled and they would be checked during internal audit. The policy regarding the disposal of chemical has been set up and corresponding staffs have been trained.

Action plan status: Completed
Planned completion date: 12/05/13
Progress update: 06/29/16 : The remediation actions have been done.
Completion date: 12/05/13

FINDING NO.6

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. HSE management systems were under development; general policy and procedure do not meet the necessary requirements to identify and minimize the risk of production processes, which should include:
 - a) Lock out/tag out procedure;
 - b) Machine guarding procedure;
 - c) Ergonomics management program;
 - d) Confined spaces management;
 - e) Procedure for controlling thermal comfort conditions;
 - f) PCB management;
 - g) Asbestos management.
2. Guard devices on machines are not well installed; for example, 10 sewing machines were not installed with needle guards, 6 sewing machines were not installed with pulley guards; and 5 button-fastening machines were not installed with "u" protective devices. One fan was equipped with an inappropriate protective device and no protective cages were equipped for the ladders that lead to the water pool on the roof of each building.
3. None of the workers in shaping positions, where their hands may in contact with hot accessories, were wearing personal protective equipment (PPE) (gloves).

4. The factory did not conduct an air quality testing report; no report was available for workshops that use chemicals.

Local Law or Code Requirement

The Code of Design of Manufacturing Equipment Safety and Hygiene, Article 6.1.6; The Safety Requirements for Fixed Steel Ladders and Platform - Part 3; Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Article 20; Law of the People's Republic of China on Production Safety, Article 37; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1, HSE.7, and HSE.14)

Root Causes

1. Management is not aware of the possible legal and financial consequences of work accidents and occupational diseases.
2. Supervision on the proper use of safeguard equipment, such as needle guards, is not sufficient.
3. There is a lack of effective training and monitoring on machinery safety.
4. Workers' awareness on the importance of using PPE is low, since there is no effective training and monitoring for workers on properly using PPE.
5. The risk analysis report does not cover all of the factory's hazards and risks.

Recommendations for Immediate Action

COMPANY ACTION PLANS

1. We have conducted a risk assessment for all manufacturing processes to identify potential HSE risks and hazards. Related policy has been set up and the trainings are provided to corresponding workers including lock out/tag out program, machine guarding procedure, ergonomics management procedure, confined space management procedure, heat stress management program, asbestos management, etc. The refresh training would be provided annually. The safety officer is assigned to do the internal checking for needle guards and pulley guards installation; "U" shape protective devices on all button-fasten machines; re-install a proper protective device on the fan; PPE trainings are also provided annual and in orientation training.

Action plan status:	Completed
Planned completion date:	12/05/13
Progress update:	06/29/16 : The HSE management has been modified
Completion date:	12/05/13

FINDING NO.7

ENVIRONMENTAL PROTECTION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. There was no air emission management procedure.
2. There was no environmental emergency response procedure.
3. The regular training on environment protection only covered 10% of all employees. The employees who received the training were supervisors, HSE, and managerial staff.
4. The factory has some hazardous waste mixed with non-hazardous waste.

Local Law or Code Requirement

China Law of Prevention and Treatment of Environmental Pollution by Solid Wastes, Article 58; FLA Workplace Code (Employment Relationship Benchmark ER.31)

Root Causes

1. The environmental management system in the factory was under development.
2. The training plan on environmental management was not effectively implemented.
3. Factory management lacks awareness and knowledge regarding hazardous waste storage.

COMPANY ACTION PLANS

1. Environment management policy has been set up and environmental emergency response procedure is included. Trainings have been provided to all employees. Air emission managing procedure has been set up as well. Air emission reports are available for different production sections where chemical is using.

Action plan status: Completed
Planned completion date: 12/05/13
Progress update: 06/29/16 : The remediated action has been done
Completion date: 12/05/13

2. The policy of storage of hazardous waste and non-hazardous waste has been set up. All employees have been trained for this policy. The refresh trainings are provided annually. Each department supervisor has been assigned to monitor daily.

Action plan status: Completed
Planned completion date: 12/05/13
Progress update: 06/29/16 : The remediated action has been completed
Completion date: 12/05/13

FINDING NO.8

COMPENSATION

FINDING TYPE: Uncorroborated Risk of Non Compliance

Finding Explanation

1. Based on worker interviews, their salary is not enough to cover all of their basic needs and provide a discretionary income. (FLA Comment: The assessment methodology in use by the FLA at the time of this assessment did not involve collection of compensation data nor specific benchmarks against which to measure the adequacy of compensation received by the workers. Fair Compensation findings were based solely on worker interviews/perception and are therefore not actionable for remediation purposes. In 2015, the FLA launched its Fair Compensation Work Plan which requires the collection and benchmarking of compensation data.)

Local Law or Code Requirement

FLA Workplace Code (Compensation Benchmark C.1.3)

Root Causes

1. The Chinese apparel industry currently does not provide wages that allow for the fulfillment of basic needs plus a discretionary income;
2. There is no wage structure in the factory that would enable workers to progressively earn a wage level that meets basic needs.

Recommendations for Immediate Action

1. Management is to take an online FLA Fair Wage Self-Assessment / 3 months;
2. Based on the self-assessment results, the factory is to work together with the FLA-affiliated Company and FLA to create strategies that would progressively ensure a wage level that covers workers' basic needs and discretionary income / Continuous.

COMPANY ACTION PLANS

1. The wages of all employees are higher than local minimum wages. Since 2012, the minimum wages increase 6.7% in 2013, increase 13% in 2014, increase 12.3% in 2015.

Action plan status: Completed

Planned completion date: 12/31/14

Progress update: 06/29/16 : The wages of all employees are higher than local minimum wages.

Completion date: 12/31/14

FINDING NO.9

FREEDOM OF ASSOCIATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

FLA Comment: The Chinese constitution guarantees Freedom of Association (FOA); however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union - the All China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of FOA, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. However, the government has introduced new regulations that could improve the functioning of the labor relation mechanisms. The Amended Trade Union Act of Oct. 2001 stipulates that union committees have to be democratically elected at member assemblies and trade unions must be accountable to their members. The trade union has the responsibility of consulting with management on key issues of importance to their members and to sign collective agreements. Trade unions also have an enhanced role in dispute resolution. In Dec. 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements. The factory did not take any action on workers' freedom of association so far. There was a trade union in the facility but it was not independent, and no evidence indicated that the management had encouraged the union to collect any suggestions from employees and adopt them when revising factory policies.

Local Law or Code Requirement

FLA Workplace Code (Freedom of Association Benchmark FOA.2)

COMPANY ACTION PLANS

1. The Trade Union in the factory is formed by election of the workers.

The Trade Union has been working close with All China Federation of Trade Unions and ACFTU regularly visits the factory to monitor the activities of the Trade Union of the factory.

The Trade Union has collected the suggestions from employees and signed the Collective Bargaining Agreement.

Action plan status: Completed

Planned completion date: 12/05/13

Progress update: 06/29/16 : The remediated action has been done.

Completion date: 12/05/13