



COMPANY: Esquel Group
COUNTRY: China
ASSESSMENT DATE: 12/11/12
MONITOR: FLA Assessor Team (China)
PRODUCTS: Fabric
PROCESSES: Dye, Inspection/QC, Weaving, Warehouse
NUMBER OF WORKERS: 4685
ASSESSMENT NUMBER: AA0000000170

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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.

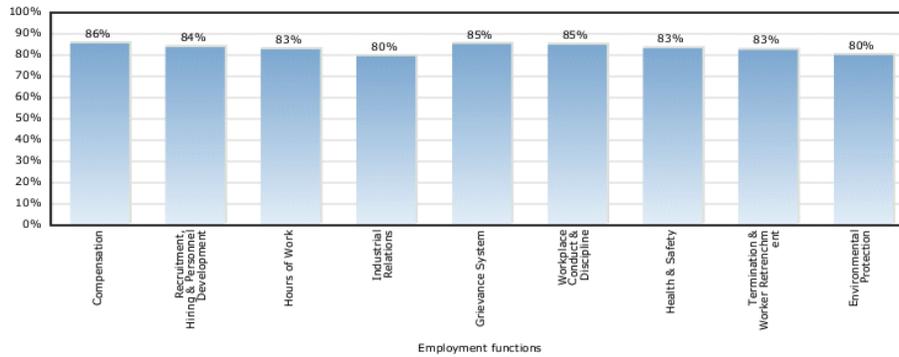
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that 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.

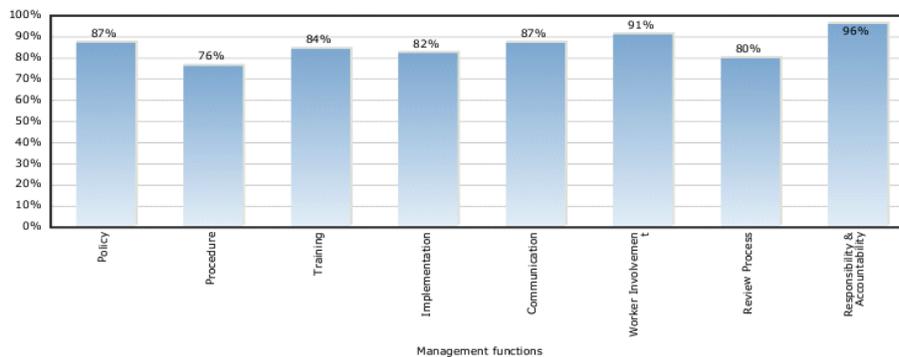
Average Score



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.

Average Score



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	92.86%	87.5%	90%	50%	100%	60%	100%	100%	100%
Procedure	81.82%	84.88%	83.87%	33.33%	90%	79.17%	79.51%	77.35%	73.33%
Responsibility & Accountability	85.76%	100%	100%	100%	100%	100%	100%	100%	100%
Review Process	77.27%	77.27%	70.83%	81.82%	75%	77.27%	77.27%	77.27%	78.33%
Training	78.33%	90%	91.71%	90.32%	89.57%	92.63%	73.41%	82.23%	81.87%
Implementation	88.3%	85.97%	72.11%	73.91%	83.33%	88.89%	87.5%	85.96%	69.94%
Communication	100%	100%	83.33%	100%	88.89%	100%	75%	68.75%	67.14%
Worker Involvement	100%	N/A	N/A	100%	100%	N/A	N/A	70.83%	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
Freedom of Association and Collective Bargaining
Harassment and Abuse
Hours of Work
Health, Safety and Environment
Non-Discrimination

Findings and Action Plans

FINDING NO.1

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

- i) There are no MSDS available for chemicals that are used by maintenance and other service departments in the factory;
- ii) Some chemicals are stored in an unsafe manner, as they have not been equipped with secondary containers and there is no restricted access to them;
- iii) Around 20 different kinds of MSDS used in the laundry and dyeing workshops are not available in the local language of workers;
- iv) Factory uses 2 chemicals with high levels of hazardous substances;
- v) Some employees handling hazardous chemicals are not provided with the appropriate PPE, in accordance with the corresponding MSDS; workers in the printing plant do not use PPE properly;
- vi) There is no ventilation system in the chemical mixing workshop and chemical storage room of the printing plant.

Local Law or Code Requirement

Local Law or Code Requirement: Law of Prevention and Control of Occupational Diseases, Article 23; FLA Workplace Code (Health,

Root Causes

- i) HSE department neglected to monitor the handling of chemicals used by maintenance and other service departments;
- ii) The printing plant set up is new and still in the process of being structured;
- iii) HSE department is not fully involved in the management of the printing plant's HSE issues;
- iv) HSE department and production departments do not have an effective communication channel.

Recommendations for Immediate Action

- i) HSE department is to track all chemicals that are used by the factory and incorporate them into a GEG factory-level chemical management system;
- ii) HSE department is to keep all MSDS updated in local language in areas where chemicals are being used and stored;
- iii) Management is to provide adequate PPE for workers, in accordance with the MSDS and train them on the proper use of PPE;
- iv) Management is to install a ventilation system in the chemical mixing workshop and chemical storage room of the printing plant;
- v) Management is to replace chemicals with hazardous substances with others with less impact to workers' health.

COMPANY ACTION PLANS

- 1. i) We took immediate action to inspect all chemicals and provide any missing MSDSs.
- ii) We have added the missing secondary containments, and have posted a "no unauthorized entry" sign on the said location.
- iii) We have updated all MSDSs to the local language.
- iv) As mentioned to the assessors, both our Research and Development and Environment, Health and Safety departments have been searching for product substitutes for the said chemicals. We will buy the substitutes once found.
- v) We have immediately provided the appropriate PPE to workers. In addition, we have assigned EHS staff to visit the new printing plan more frequently to monitor its EHS system and to train and monitor workers and supervisors alike on the safety standards of the company.
- vi) Ventilation systems have been installed in said places in the printing plant.

Action plan status:	Completed
Planned completion date:	01/01/13
Progress update:	01/23/17 : i) We took immediate action to inspect all chemicals and provide any missing MSDSs. ii) We have added the missing secondary containments, and have posted a "no unauthorized entry" sign on the said location. iii) We have updated all MSDSs to the local language. iv) As mentioned to the assessors, both our Research and Development and Environment, Health and Safety departments have been searching for product substitutes for the said chemicals. We will buy the substitutes once found. v) We have immediately provided the appropriate PPE to workers. In addition, we have assigned EHS staff to visit the new printing plan more frequently to monitor its EHS system and to train and monitor workers and supervisors alike on the safety standards of the company. vi) Ventilation systems have been installed in said places in the printing plant.
Completion date:	01/01/13

FINDING NO.2

ENVIRONMENTAL PROTECTION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

There is no dedicated area for the storage of solid and hazardous waste on the GEG campus. The waste is temporarily placed in the passage between 2 production buildings, with no shield or segregation to prevent them from unauthorized access or adverse weather conditions.

Local Law or Code Requirement

Prevention and Control Law of Environmental Pollution, Solid Waste, Articles 17, 21, and 52; FLA Workplace Code (Health, Safety and Environment benchmark HSE.1)

Root Causes

i) Environmental risk analysis report does not include hazards and solid waste;

ii) There is limited space on the GEG campus to store waste and the centralized waste storage area is not far away; therefore, the factory does not set up a separate dedicated storage area.

COMPANY ACTION PLANS

1. We have allocated an isolated, secured area for hazardous wastes. This area is enclosed with a gate that prevents unauthorized entry.

Action plan status: Completed

Planned completion date: 03/01/13

Progress update: 01/23/17 : We have allocated an isolated, secured area for hazardous wastes. This area is enclosed with a gate that prevents unauthorized entry.

Completion date: 03/01/13

FINDING NO.3

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

i) Factory has not maintained all work-related injury or accident/incident records (e.g., minor and near-miss cases);

ii) Some workers diagnosed with risks of occupational illness were not transferred away from their positions in a timely manner in accordance with the results of and advice from their health examination reports conducted by an authorized occupational health examination institute. E.g., 1 worker working in the laundry workshop was diagnosed with risks of hearing loss in December 2010; he was still working in the same position by November 2011, when he was given a follow-up occupational health examination, which resulted in his transfer;

iii) Factory management has not completely reviewed all existing occupational health examination reports.

Local Law or Code Requirement

Law of Prevention and Control of Occupational Diseases, Article 36; FLA Workplace Code (Health, Safety and Environment benchmarks HSE.1 and HSE.3.2)

Root Causes

i) Management lacks awareness about the possible benefits of keeping records of all work accidents and near-miss cases;

ii) Due to HSE department workload, the review of all existing occupational reports has not been well implemented.

Recommendations for Immediate Action

i) Factory should maintain records of all work-related accidents and incidents;

ii) Factory is to review all existing occupational health examination reports, to identify whether there are any other workers diagnosed with risks of occupational illness and to arrange job transfers, if applicable.

COMPANY ACTION PLANS

1. i) We have communicated with our EHS Office team to study and escalate the tracking system to cover near-misses.

ii) We have had cases where workers do not want to transfer positions even for health reasons. The case mentioned here is one of them.

For reference, attached are our policies, procedures and summary analyses of health examinations. The factory management will

follow the procedures despite resistance from the workers.

iii) Besides the HSE Dept of GEG, we also have recourses from the EHS office of the parent company for GEG to be in charge of this area. We make sure all existing occupational health examination report can be completely reviewed.

Action plan status: Completed

Planned completion date: 06/01/13

Progress update: 01/23/17 : i) We have communicated with our EHS Office team to study and escalate the tracking system to cover near-misses. ii) We have had cases where workers do not want to transfer positions even for health reasons. The case mentioned here is one of them. For reference, attached are our policies, procedures and summary analyses of health examinations. The factory management will follow the procedures despite resistance from the workers. iii) Besides the HSE Dept of GEG, we also have recourses from the EHS office of the parent company for GEG to be in charge of this area. We make sure all existing occupational health examination report can be completely reviewed.

Completion date: 06/01/13

FINDING NO.4

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

i) Probationary period varies from 3 to 6 months, based on workers' performance;

ii) The factory does have a system in place to evaluate workers' performance during their probation period, but when looking at the workers' whole lifecycle, there are areas that need improvement.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.29 and ER.30; Compensation benchmark C.3)

Root Causes

i) Chinese law allows for a probationary period of up to 6 months for workers who have 3-year or indefinite employment contracts;

ii) Factory's current personnel development system is staff-oriented and does not cover production workers;

iii) The promotion and personal development opportunities for workers after probation period are limited.

Recommendations for Immediate Action

Factory management is to issue and sign permanent contracts upon completion of the 3 months of probationary period.

COMPANY ACTION PLANS

1. i) Since our practice allows employees to pass probation in 3 months and most employees do, and we also give those who struggled a bit more time to meet the requirements, we are in compliance with safeguarding of workers' legal rights, when we allow a maximum of 6 months probation. ii) We will review and update our HR policies and procedures on worker performance review. Once done, we will communicate and train concerned staff / workers on the changes. "1. The procedure for the probation period shall not exceed 6 month is strictly compliance with Law of P.R.C on Employment Contracts, article 21, ""if an employment contract has a term of not less than three years or is open-ended, the probation period may not exceed six months"". 2. Although we said the probation period shall not exceed 6 months, we aim to provide more opportunity for the lack of skills employees to have chance to maintain the employment relations with company if they are not qualified in 3 months, and factory could provide more training for them in next 3 months for their improvement. 3. In year of 2016, about 87% of new employees passed the probation in 90 days, only 13% employees have extended probation more than 90 days but within 6 months. 4. Since Oct 2013, factory has implemented new salary policy, the same salary policy is applied for all level employees with the same operation post. There isn't different for the employees within probation or not. "

Action plan status: Completed

Planned

completion date: 01/01/13

Progress update: 01/23/17 : i) Since our practice allows employees to pass probation in 3 months and most employees do, and we also give those who struggled a bit more time to meet the requirements, we are in compliance with safeguarding of workers' legal rights, when we allow a maximum of 6 months probation. ii) We will review and update our HR policies and procedures on worker performance review. Once done, we will communicate and train concerned staff / workers on the changes.

Completion date: 01/01/13

FINDING NO.5

HOURS OF WORK

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

i) From October to mid-December 2012, there were 5 times where the factory did not provide employees with 1 day off in every 7-day period (2 times in October; 2 times in November; and 1 time in December 2012);

ii) During this period, the factory also exceeded the 60-hour weekly work limit; cutting, sewing, and finishing departments were affected;

iii) Throughout the whole year, most workers worked overtime, beyond the legal limit of 36 hours per month.

Local Law or Code Requirement

Chinese Labor Law, Article 41; FLA Workplace Code (Hours of Work benchmarks HOW.1, HOW.2, and HOW.8)

Root Causes

i) Factory has based its production planning on 55-60 hours/week; production and capacity planning is deficient and does not include safeguards to prevent employees from working more than 60 hours a week;

ii) Most workers rely on overtime work for additional income;

iii) Factory worked longer hours during peak season (October to December). During that time, a lot of production orders were accepted and fabric issues occurred, having a direct impact on the number of hours needed to complete the job.

Recommendations for Immediate Action

Factory management is to create and implement a plan to ensure that workers who have not been provided with a rest day in the last 3 months of 2012 are retroactively provided with 24 consecutive hours of rest, as per FLA benchmarks.

COMPANY ACTION PLANS

1. As noted by the assessors, the months reviewed are our peak months. During those months (and at all times), we have ensured that all overtime work is done voluntarily and workers are paid at a premium based on the China law. We have obtained from the Labor Bureau an overtime waiver allowing us to work beyond the legal limits of 36 overtime hours per month, but not more than 20 overtime hours per week. In addition, we will continue to work with customers, internal sales representatives and production planning to balance order loading against factory capacities. Unfortunately the cyclical nature of most orders and the complexities involved in managing various customer requirements/requests, makes it challenging to ensure no OT all year. We have a global commitment to reduce working hours and will continue our work in this area. "1. Factory ensure to provide one day off in 7 days' period and OT working should be within 3hrs per day as basic requirement. 2. Factory will continuously work with Sales/Production Plan department to balance order loading & factory capacity if possible so as to avoid overloading which might cause OT; 3. Factory will continue to provide trainings to employees about the policy of Hours of Work on daily pre-shift meeting, and will conduct refresh training to line leaders by every half year on OT working application and controlling. 4. Skills training: 1) Factory will rank out the lowest efficiency operator every month, and provide job-related training to improve their skills. 2) More and more workers are trained to be multi-skilled workers, so as to bottleneck process when necessary to better balance the production and improve productivity. 5. Factory has been developing & applying more and more automation in production, which will not only reduce handwork by workers, but also contribute greatly to the improvement of efficiency and productivity. Factory has increased 6 sets auto sewing machines and replaced 76 sets sewing machine in year of 2016, and is planning to purchase 13 more sets auto-sewing machines and auto sealing carton machines in 2017. Replacement for another 95 sets of sewing machines is also under planning in 2017. 6. In addition, we have recruited 175 employees in 2016, and will continue to increase 200 more workers for 2017 through

social recruitment via TV / radio / network/poster and Job fair. 7. The Production Dept. & HR Dept. will monitor the monthly attendance records, to ensure the overtime hours would be compliance with relevant requirement. 8. From year of 2015 and 2016, factory has taken some effective ways to reduce the OT working. Factory will never stop to working with related depts. to further reduce the OT hours. Attached pls kindly find weekly average working hour from 2015~2016 for your reference.

Action plan status: In Progress

Planned completion date: 12/31/14

Progress update: 01/23/17 : As noted by the assessors, the months reviewed are our peak months. During those months (and at all times), we have ensured that all overtime work is done voluntarily and workers are paid at a premium based on the China law. We have obtained from the Labor Bureau an overtime waiver allowing us to work beyond the legal limits of 36 overtime hours per month, but not more than 20 overtime hours per week. In addition, we will continue to work with customers, internal sales representatives and production planning to balance order loading against factory capacities. Unfortunately the cyclical nature of most orders and the complexities involved in managing various customer requirements/requests, makes it challenging to ensure no OT all year. We have a global commitment to reduce working hours and will continue our work in this area.

FINDING NO.6

HOURS OF WORK

FINDING TYPE: Immediate Action Required

Finding Explanation

i) Pregnant workers are not aware that they can take the prenatal care leave on weekdays, so they usually take it on Saturdays or Sundays;

ii) 1 pregnant employee, who was in her 8th month of pregnancy, was still working overtime;

iii) Most workers interviewed reported that they were not aware that seniority can be accumulated from previous work experience in terms of calculating and paying annual leave.

Local Law or Code Requirement

Special Rules on the Labor Protections of Female Employees, Article 6; Implementation Measures of Employees' Paid Annual Leave, Article 5; FLA Workplace Code (Hours of Work benchmark HOW.1; Compensation benchmark C.17)

Root Causes

i) There are no procedures to handle pregnancy, which includes prenatal care leave and the steps to follow for implementation; orientation training did not cover prenatal care leave;

ii) Workers taking prenatal care leave on weekdays may result in potential production disruptions during the regular work week;

iii) There is no effective monitoring system for line supervisors to prevent pregnant workers from performing overtime, as per the national law;

iv) Absence of effective communication and training for workers, and those in supervisory and managerial positions on the fringe benefits package.

Recommendations for Immediate Action

Management is to communicate through different channels that: 1) prenatal care leave can be taken on any day of the week and 2) workers who are more than 7 months pregnant are not allowed to work overtime. Channels could include: notice boards, broadcasting, newsletters, memos, Health & Safety Committee, worker representative structure, etc.

COMPANY ACTION PLANS

1. i) We have rectified this issue by reviewing our policy and procedure on prenatal care again to make sure it's in accordance with the local law. See attached policy and training material. We have communicated this to our employees through line supervisors and company bulletin boards to raise their awareness of the entitlements. In addition, we have included this in our new employee trainings, see attached training material. As a result, employees who were pregnant have availed this benefit since we communicated the new policy, see attached sample prenatal care record.

ii) It was acknowledged as an isolated case. Nonetheless, we have enhanced our monitoring system on pregnant workers through: proactively reaching out for pregnant workers, apart from requesting workers to report to us before they reach 7th month pregnancy, department clerks walk the floors to look for any pregnant workers. Our line supervisors reiterate our policy of no overtime for pregnant workers in their 7th month in regular team meetings. Also, our trainers cover the same policy in new employee orientation.

iii) We have existing policy, procedures, and regular training on this legal benefit. Our employee handbook states clearly that employees' historical work experiences are included in the calculation of annual leave. This handbook is posted on our bulletin board and it is given to each employee when they join the company. See attached photo and excerpt from our employee handbook. We give a "Pre-employment Work Experience Form" to all new employees to fill in when they join us. This form asks them of their historical work experiences. See attached form. A New Worker Orientation Note is also given to newly joined employee, which provide guidelines on the inclusion of historical work experience in annual leave calculation. To enhance our workers' awareness of this benefit, we have asked line supervisors to reiterate it in their regular team meetings.

Action plan status: Completed

Planned completion date: 01/01/13

Progress update: 01/23/17 : i) We have rectified this issue by reviewing our policy and procedure on prenatal care again to make sure it's in accordance with the local law. See attached policy and training material. We have communicated this to our employees through line supervisors and company bulletin boards to raise their awareness of the entitlements . In addition, we have included this in our new employee trainings, see attached training material. As a result, employees who were pregnant have availed this benefit since we communicated the new policy, see attached sample prenatal care record. ii) It was acknowledged as an isolated case. Nonetheless, we have enhanced our monitoring system on pregnant workers through: proactively reaching out for pregnant workers, apart from requesting workers to report to us before they reach 7th month pregnancy, department clerks walk the floors to look for any pregnant workers. Our line supervisors reiterate our policy of no overtime for pregnant workers in their 7th month in regular team meetings. Also, our trainers cover the same policy in new employee orientation. iii) We have existing policy, procedures, and regular training on this legal benefit. Our employee handbook states clearly that employees' historical work experiences are included in the calculation of annual leave. This handbook is posted on our bulletin board and it is given to each employee when they join the company. See attached photo and excerpt from our employee handbook. We give a "Pre-employment Work Experience Form" to all new employees to fill in when they join us. This form asks them of their historical work experiences. See attached form. A New Worker Orientation Note is also given to newly joined employee, which provide guidelines on the inclusion of historical work experience in annual leave calculation. To enhance our workers' awareness of this benefit, we have asked line supervisors to reiterate it in their regular team meetings.

Completion date: 01/01/13

FINDING NO.7

COMPENSATION

FINDING TYPE: Notable Feature

Finding Explanation

Management established an advanced electronic system with a touch screen that enables workers to: 1) apply and verify leave application and 2) check their live compensation information at the entrance of every factory floor. Workers can log into the system to apply for leave/overtime and check their earned salary for each day at their own convenience.

FINDING NO.8

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

i) Management applies wage deductions to those workers who incur on production quality mistakes, and also for those who violate workplace regulations or Standard Operating Procedures (SOPs), e.g., when a worker receives a written warning, their wage coefficient is reduced, resulting in a decreased wage;

ii) Name of a sanctioned worker was posted on the notice board of the printing plant;

iii) Workers are not able to participate or be heard in any disciplinary process against them.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmark ER.27.3.2; Harassment or Abuse benchmarks H/A.2 and H/A.6; Health, Safety and Environment benchmark HSE.15)

Root Causes

i) Management uses wage coefficient deductions in an effort to ensure compliance with workplace discipline regulations and to maintain desired conduct throughout the production floor;

ii) There is not enough worker consultation and representation in the policy-making process regarding workplace conduct and discipline;

iii) The printing plant is newly set up and far away from GEG's main premises; therefore, communication and oversight between both facilities is still in the process of improving;

iv) Factory is not fully aware of FLA's Workplace Code and Benchmarks.

Recommendations for Immediate Action

i) Factory management is to stop the practice of applying negative incentives and monetary penalties as a way to handle discipline;

ii) Factory management should stop the practice of name posting and communicate this change to the workers in the printing plant.

COMPANY ACTION PLANS

1. i) The coefficient related to disciplinary action (warning letter) has been removed in the wage calculation for all departments in the facility, effective from 1/Jan/2013. Department managers and supervisors have been given training concerning the new wage calculation and special emphasis is made in our our policy of no monetary penalties. In case workers commit mistakes or violate policies, they will undergo training and counseling according to our code of discipline. Refer to supporting doc

ii) We have trained our printing plant management team via the meeting and have assigned our factory CSR staff to monitor the new plant more regularly. Refer to supporting doc

iii) We will improve our disciplinary action form to include a section for workers to put in their comments, before their signature. Refer to supporting doc

Action plan status: Completed

Planned completion date: 01/01/13

Progress update: 01/23/17 : i) The coefficient related to disciplinary action (warning letter) has been removed in the wage calculation for all departments in the facility, effective from 1/Jan/2013. Department managers and supervisors have been given training concerning the new wage calculation and special emphasis is made in our our policy of no monetary penalties. In case workers commit mistakes or violate policies, they will undergo training and counseling according to our code of discipline. Refer to supporting doc ii) We have trained our printing plant management team via the meeting and have assigned our factory CSR staff to monitor the new plant more regularly. Refer to supporting doc iii) We will improve our disciplinary action form to include a section for workers to put in their comments, before their signature. Refer to supporting doc

Completion date: 01/01/13

FINDING NO.9

INDUSTRIAL RELATIONS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

FLA Comment: The Chinese constitution guarantees Freedom of Association; 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 freedom of association, 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. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms. The Amended Trade Union Act of October 2001 does stipulate that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 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.

Local Law or Code Requirement

FLA Workplace Code (Freedom of Association FOA.2)

COMPANY ACTION PLANS

1. As specified in the FLA finding explanation, this is a country specific issue and the factory is unable to solve this issue alone. We will continue to positively engage with our trade union representatives.

Action plan status:	In Progress
Planned completion date:	12/31/14
Progress update:	01/23/17 : As specified in the FLA finding explanation, this is a country specific issue and the factory is unable to solve this issue alone. We will continue to positively engage with our trade union representatives.

FINDING NO.10

COMPENSATION

FINDING TYPE: Uncorroborated Risk of Non Compliance

Finding Explanation

1. Based on worker interviews, their salary is not enough to cover all 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

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

FINDING NO.11

HEALTH AND SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Based on worker interviews, most workers stated that they had received no training to increase their awareness and knowledge on ergonomic risks in the workplace. Some instances were found as follows:

- i) There was no specific training on lifting techniques while training on some other ergonomics was recorded for assessors' review.
- ii) Also, it was observed that most workers (around 90% of the total workforce) were not provided with chairs with backrests.

Local Law or Code Requirement

FLA Workplace Code (Health, Safety and Environment benchmark HSE.17)

Root Causes

- i) Management has some understanding and work on benefits of ergonomics, but lack of sufficient effort on training and implementation of ergonomics;
- ii) Health and Safety Department does not cover ergonomics as part of their risk assessments.

COMPANY ACTION PLANS

1. i) We do provide training on lifting techniques in the workplace. We will continue to strengthen the quality of that training and all other related training on a regular basis to make sure the workers are fully aware of the techniques.
- ii) We had this issue some time ago. But it was on changing chairs with backrests to chairs without backrest. We used to provide workers chairs with backrest. See photo. However, when we did a survey to get workers' feedback, we learned that workers prefer chairs without backrest. As such, we replaced all chairs with the current ones seen by the assessors. To resolve this issue, we will do a survey again to get workers' inputs.

Action plan status: Completed

Planned completion date: 06/01/13

Progress update: 01/23/17 : i) We do provide training on lifting techniques in the workplace. We will continue to strengthen the quality of that training and all other related training on a regular basis to make sure the workers are fully aware of the techniques. ii) We had this issue some time ago. But it was on changing chairs with backrests to chairs without backrest. We used to provide workers chairs with backrest. See photo. However, when we did a survey to get workers' feedback, we learned that workers prefer chairs without backrest. As such, we replaced all chairs with the current ones seen by the assessors. To resolve this issue, we will do a survey again to get workers' inputs.

Completion date: 06/01/13