



COMPANY: **Mainland Headwear Holdings Limited**
COUNTRY: **China**
ASSESSMENT DATE: **11/18/13**
MONITOR: **Openview Service Limited**
PRODUCTS: **Accessories [items, such as handbag clasps, that are affixed to other products]**
PROCESSES: **Cut**
NUMBER OF WORKERS: **200**
NUMBER OF WORKERS INTERVIEWED:
ASSESSMENT NUMBER: **AA000000330**

FLA Comments

COMPANY COMMENT ON FACTORY CLOSURE: The factory proposed to move the facility to another location that is within the same zone under the local regulations. The new facility is located in an area with lower rental rates and lower cost of factory overheads. The factory management organized various negotiation and meetings with the local Labor Bureau, workers' union representatives and the workers' representatives on the relocation proposal. Following steps were taken: 1.) Notified about the relocation intention and gathered feedback from all levels of the factory including workers. 2.) Notified the local Labor Bureau about the company's relocation plan and submitted all relevant details and timeframe for discussion with workers' union and workers' representatives. 3.) Submitted the relocation plan to local Labor Bureau and sought approval for action plan. 4.) Some workers did not choose to move to the new factory and wanted to join other factories after Chinese New Year. They tendered their resignation with the factory before relocation. 5.) Factory management commenced new manufacturing operations at the new factory as of March 1, 2014. Considering the advice from the local Labor Bureau, factory management accepted the resignation tendered by the employees so that they are free to be employed by other factories. As a gesture of appreciation of long services of staff and workers, they were awarded 1 – 3 months of extra salaries on top of the normal wages entitled. The payment process was approved and monitored by the local Labor Bureau. The last payment of salary arranged on April 30, 2014. Being the subsidiary of Mainland Headwear Group, the factory ceased its manufacturing operations in line with the FLA standards. No violations of employee rights have been identified by the compliance team of Mainland Headwear Holdings Limited.

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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 such 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.

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.

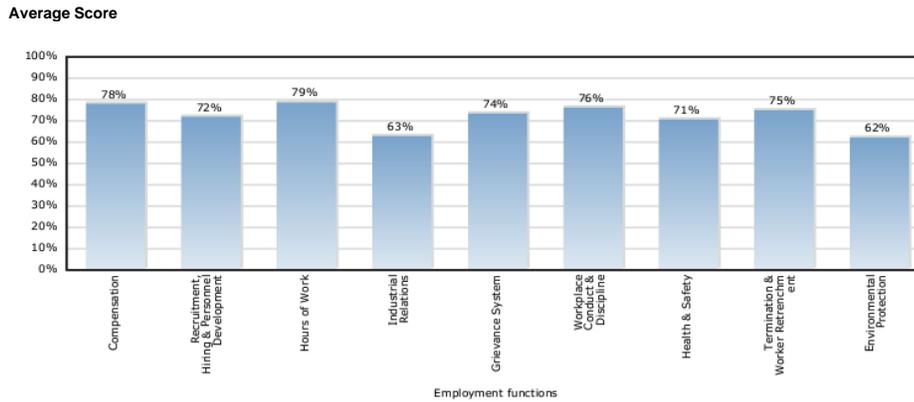
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that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

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

Factory Profile

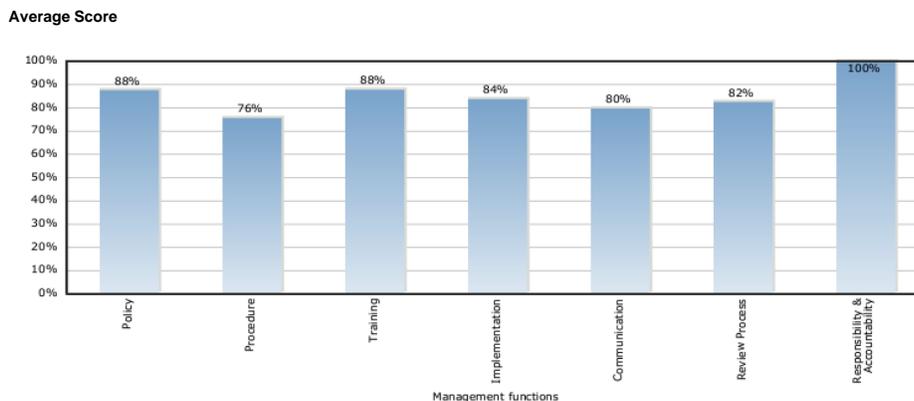
Score by Employment Function

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 assessment conducted for FLA by independent, accredited assessors. 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	69.73%	83.33%	86.67%	50%	81.82%	85.71%	84.62%	70%	38.89%
Procedure	95.88%	100%	100%	29.41%	100%	94.44%	100%	67.99%	40%
Responsibility & Accountability	100%	100%	100%	100%	100%	100%	100%	100%	100%
Review Process	50%	100%	100%	100%	100%	100%	100%	75%	33.33%
Training	71.43%	95.24%	91.67%	83.33%	87.5%	93.75%	66.67%	73.04%	50%
Implementation	90.69%	89.02%	92.86%	88%	100%	100%	100%	76.97%	75.78%
Communication	100%	100%	75%	100%	100%	75%	87.5%	57.5%	50%

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	Number of Violations	Violations
Compensation	1	Calculation Basis for Overtime Payments
Employment Relationship	7	General/Human Resource Management Systems Terms and Conditions/New Employee Orientation Terms and Conditions/Communication Work Rules and Discipline Skills Development/Management of Performance Reviews Skills Development/Promotion, Demotion and Job Reassignment Health, Safety, and Environmental Management System/Policies and Procedures
Freedom of Association and Collective Bargaining	1	Facilities for Worker Representatives
Health, Safety and Environment	7	General Compliance Health, Safety, and Environment Material Safety Data Sheets/Workers Access and Awareness Ergonomics Document Maintenance/Workers Accessibility and Awareness Evacuation Requirements and Procedure Safety Equipment and First Aid Training Chemical Management and Training

Findings and Action Plans

FINDING NO.1

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The job application form includes questions about marital and pregnancy status, which might lead to discrimination during the recruitment process.
2. The factory requires some workers to sign a 3-year contract that includes an extended probation period of 6 months. (Short-term workers are exempt from this provision.) According to FLA Workplace Code and Benchmarks, the maximum probation period should be 3 months.
3. There are no specific policies or procedures related to career planning or personnel development for production workers.

There is no personnel development map, career training, or personnel development for workers. (More than 80% of the total workforce are production workers).

4. Although the factory had established written performance review policies and procedures and also outlined the review steps, management could not provide records of workers' performance over the past year to demonstrate how reviews corresponded to job grading, promotion or demotion. Furthermore, the performance review procedure had not been effectively communicated to production workers; most interviewed workers were not aware of the performance review process and procedure.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.3, ER.28, ER.29, and ER.30; Compensation Benchmark C.3)

Root Causes

1. These issues have not been brought to the attention of the factory management during external audits.
2. These requirements have not been communicated to the factory by the FLA-affiliated parent company. The current practices are in line with local law and regulations, but are in violation of FLA standards.
3. Management is not sensitive to the fact that requesting this type of personal information on job applications can lead to discrimination.
4. The factory's current Human Resources (HR) staffing level is not sufficient to manage reviewing the performance of the entire workforce.
5. The factory had recently provided a brief orientation training on the performance review policies and procedures; however, it was not effective and there were no other channels to communicate these policies and procedures to workers.
6. There is no regular management review or internal review of existing practices to ensure that all records are maintained.

Recommendations for Immediate Action

1. Remove any questions pertaining to marital and pregnancy status from the job application form.

FINDING NO.2

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory did not conduct an assessment to identify occupational health hazards or evaluate the effectiveness of existing preventive measurements. Consequently, health examinations for chemical workers are conducted in accordance with dust and noise standards, instead of chemical standards.
2. There was no procedure for controlling workers' thermal comfort conditions or protecting them from potential heat-related hazards.
3. Although a written Lock out-Tag out (LOTO) procedure had been established, workers had not been provided with relevant training. Maintenance workers were not provided with warning tags or locking devices to protect them from hazardous equipment.
4. Air guns are used for cleaning purposes in assembly lines, which increases the level of noise in workstations. One air gun operator was not wearing personal protective equipment (PPE) for hearing protection.
5. Management has not identified confined spaces, such as elevator shafts and wastewater sinks. Consequently, no confined space management procedures are available.
6. The kitchen workers were not properly trained on the food sampling procedure and regularly mixed food samples together.

Local Law or Code Requirement

Law of the People's Republic of China on Production Safety, Article 37; Code on Asbestos Operation and Handling Management, Article 14; Interim Provisions on the Supervision and Administration of Workplace Occupational Health, Article 22; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1, HSE.7, HSE.8, HSE.14, and HSE.22)

Root Causes

1. The factory's current Health, Safety and Environment (HSE) resources are insufficient for managing HSE-related issues. There was only 1 manager in charge of all HR, administrative, and HSE issues.
2. External experts were not involved in the risk assessment process. The risk analysis report does not cover all of the factory's hazards and risks.

3. Management does not know the severity of the adverse impacts of noise and high temperatures on workers' health.
4. The ineffectiveness of the HSE Committee, methodology, and tools used for internal audits and routine HSE inspections. Additionally, there is no effective review process.
5. The absence of an effective chemical management program that covers:
 - a) new chemical introduction review and approval;
 - b) occupational exposure measurement and control;
 - c) medical surveillance.

Recommendations for Immediate Action

1. Provide hearing protection to air gun operators.

FINDING NO.3

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The major emergency assembly areas in the factory are not located within a safe distance of the production building.
2. Liquefied petroleum gas (LPG) vessels used in the kitchen are stored outdoors and are not sheltered from the sun.
3. One evacuation door on the second floor of old production building was only 78 centimeters (cm) wide, which is less than the legally required width (90 cm) for an evacuation door.
4. Rolling shutters are installed at 2 evacuation exits of the "old" production building, which is in violation of the building code regulations.

Local Law or Code Requirement

Code for Design of Building Fire Protection and Prevention (GB50016-2006), Articles 7.4.12 and 3.7.5; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.5.1 and HSE.6)

Root Causes

1. Management lacks professional know-how on fire-prevention and emergency evacuation.
2. Ineffective internal fire inspections and assessments.

Recommendations for Immediate Action

1. Relocate the emergency assembly area to a safe distance from the production building.
2. Rebuild the emergency door on the second floor of the "old" production building to be in line with legal standards.
3. Store LPG vessels in a separate warehouse.
4. Install a fixed bolt on the rolling door to prevent its collapse.

FINDING NO.4

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Workers were observed in uncomfortable body postures, working hunched over or leaning, while doing manual operations.

Local Law or Code Requirement

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

Root Causes

1. Management lacks knowledge of the potential benefits of ergonomic improvements, such as: a) increased productivity and attendance levels and b) a reduction of the risk of workplace accidents and musculoskeletal disorders.
2. The factory did not conduct an ergonomic study in all production areas.
3. Workers have not been trained on ergonomic risks.

FINDING NO.5

ENVIRONMENTAL PROTECTION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory did not apply for and obtain a pollutant discharge permit from the local environmental authority. The wastewater generated by the dyeing and washing processes is discharged and treated through a local central wastewater treatment plant.
2. Diesel tanks are not included in the emergency drills' plan list. There are no preventive measures taken against potential accidental spills, discharge, or drips in areas where high voltage equipment/machinery and electrical panels are stationed in sprinkler protection areas.
3. The factory has no procedures for the regular inspection of the in-ground diesel tanks. The following issues were observed:
 - a) there are no protective barriers around the filling point;
 - b) incomplete secondary containment; the soil around the filling point is not hardened;
 - c) there are no precautions against potential drips/overflow during the filling process.
4. Hazardous waste materials, such as empty chemical containers, are mixed with common waste in waste areas; waste handlers did not know and were not trained on how to differentiate between and handle hazardous waste and common waste.
5. Asbestos materials were identified in the heat insulation shield of steam pipes; however, the factory did not establish written procedures to guide asbestos handling, which should include safety precautions on pipe maintenance, storage, and discharge of the asbestos materials.

Local Law or Code Requirement

China Law of Prevention and Treatment of Water Pollution, Article 20; Regulation for Safety of Dangerous Chemicals, Article 20; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.4 and HSE.9)

Root Causes

1. Although the factory has some written procedures on environmental management, the implementation of the environmental management system is not effective in many areas. There is no periodic assessment of environmental issues and workers do not receive training on these issues. This is due to the ineffectiveness of the HSE Committee, methodology, and tools used for internal audits and routine HSE inspections, as well as the absence of an effective review process.
2. Management lacks knowledge of pollution prevention. They did not receive certified external training on environmental protection. Most of the interviewed managerial staff mentioned that these issues had not been raised during previous external audits.
3. There is no active worker representation or participation on the HSE Committee. There is no system for encouraging workers to participate in ongoing HSE efforts.

FINDING NO.6

WAGES & BENEFITS

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The employer did not adhere to the terms of employment contracts regarding the payment of workers. According to employment contracts, about 50% of production employees should have been paid on a piece rate basis. However, payrolls indicated that all employees were paid on an hourly rate basis, plus full attendance and production bonuses.
2. The factory failed to pay the legally required overtime wage on a regular basis. Around 50% of production workers who signed piece rate contracts were not fully paid for overtime hours worked between November 2012 and October 2013. These workers only received piece rate earnings for the total hours worked each month and did not receive additional

overtime pay. Based on piece rate, the overtime payment workers are owed range from RMB 250 – 868 per employee per month.

3. The factory does not provide 100% of social insurance coverage on a systematic basis. A review of the social insurance receipt from November 2013 revealed that while all 239 employees were provided work-related injury insurance, only 205 (or 85.8%) were provided pension, unemployment, medical, and maternity insurances.

Local Law or Code Requirement

Labor Contract Law of People's Republic of China, Article 29; Labor Law of People's Republic of China, Articles 44 and Article 73; FLA Workplace Code (Compensation Benchmarks C.1, C.5, and C.7)

Root Causes

1. Management lacks awareness of specific laws and regulations on wages and benefits.
2. HR resources are not sufficient to handle all HR, administrative, and HSE matters.
3. Many workers do not understand the legally required overtime rate for hourly wages and piece rate wages due to the ineffectiveness of training.
4. Both employer and employees are discouraged from participating in the social insurance scheme because:
 - a) social insurance contributions are considered a financial burden by both employers and employees;
 - b) most employees are under the age of 26 and are reluctant to start contributing to the pension fund;
 - c) the Chinese social insurance system is still under development. As a result, the process of transferring funds remains complicated. Most employees are not given solid support from the local authority and their employer to understand how to transfer the funds between their place of employment and their hometown (which is where they will receive their retirement funds).
 - d) local governments have not been strictly monitoring and enforcing compliance.

Recommendations for Immediate Action

1. Ensure that all employees' payments are consistent with employment contracts and that the overtime wage for piece rate work is paid in accordance with legal requirements.

FINDING NO.7

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The disciplinary system did not allow the presence of a third-party witness during the imposition of the disciplinary action.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.27.4)

Root Causes

1. Management lacks awareness of this FLA requirement.

FINDING NO.8

INDUSTRIAL RELATIONS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. According to management and worker interviews, the factory did not provide workers with a copy of the collective bargaining agreement (CBA).
2. The factory does not provide the resources required for the daily operation of a trade union. The factory also has not provided the legally required office space or office equipment to enable the union to conduct daily meetings and perform their functions.
3. The trade union's chairman and committee members are not full-time trade union representatives and only spend 10% of

their time on trade union-related work. The trade union's chairman is also the factory's production supervisor.

Local Law or Code Requirement

Trade Union Law of the People's Republic of China, Article 46; FLA Workplace Code (Employment Relationship Benchmark ER.16.2; Freedom of Association Benchmark FOA.15)

Root Causes

1. **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 International Labor Organization (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.
2. This issue has not been brought to the attention of factory management during previous external audits.
3. In China, factories are not legally required to provide workers with a copy of the CBA.
4. Management lacks awareness of FLA Workplace Code and Benchmarks.
5. Management lacks awareness of the importance and benefits of having worker representation and participation in different facets of factory operations.

FINDING NO.9

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 textile 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.

FINDING NO.10

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory did not establish a regular review process of policies, procedures, and their implementation in a consultative manner and amend when warranted on the following Employment Functions: Wage & Benefits, Termination & Retrenchment, and HSE management.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.1.3)

Root Causes

1. Factory lacks awareness of FLA Workplace Code and Benchmarks.
2. HR does not have a well-developed review program.

FINDING NO.11

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. There were no disabled workers in the factory. According to local law, disabled workers should constitute at least 1.5% of the workforce. Although the factory contributes to the Employment Security Fund in lieu of employing disabled workers as allowed under the local law, this practice carries the risk of discrimination based on FLA Workplace Code and Benchmarks.

Local Law or Code Requirement

FLA Workplace Code (Non-Discrimination Benchmark ND.2)

Root Causes

1. Management lacks awareness of employment non-discrimination and of FLA Workplace Code and Benchmarks related to the topic.
2. Local law allows employers to pay into the Employment Security Fund in lieu of employing disabled workers.
3. As the type and severity of disability is an important factor for deciding if a candidate is suitable for the workplace/task to which they will be assigned, the factory finds it difficult to recruit eligible disabled workers.