

FLA Audit Profile

Factory Code	440015815G
Country	China
FLA Affiliate	H&M
Monitor	SGS-CSTC Standards Technical Services Co., Ltd
Audit Date	November 12, 2008
Products	Hair Ornaments
Processes	Spinning-cutting-nailing up-assembly-packing
Number of Workers	68



FAIR LABOR
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Wages, Benefits and Overtime Compensation: I. Premium/Overtime Compensation

WBOT.10 The factory shall comply with all applicable laws, regulations and procedures governing the payment of premium rates for work on holidays, rest days, and overtime. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: Based on payroll records from Oct 2007 to Sep 2008 review, it was noted that no extra OT premium were paid to all 6 piece rate workers of spinning post. The management stated that all spinning operators were paid by piece rate, and no extra OT premium were paid for them before Oct 2008. But they said all of them were paid the extra OT premium since Oct 1 of 2008 according to H&M requirement. And other workers were paid by hourly rate before Oct 2008, the minimum wages and the OT premium met local requirements, but they changed their payment system according to H&M requirements since Oct 1, 2008, and now all production workers were paid by piece rate, and the piece rate wage calculation methods met local requirements according to H&M guidance. It violated the article 44 of china labor law: The employing unit shall, according to the following standards, pay laborers remunerations higher than those for normal working hours under any of the following circumstances: (1) to pay no less than 150 per cent of the normal wages if the extension of working hours is arranged; (2) to pay no less than 200 per cent of the normal wages if the extended hours are arranged on days of rest and no deferred rest can be taken; and (3) to pay no less than 300 per cent of the normal wages if the extended hours are arranged on statutory holidays.

Plan Of Action: H&M is first and foremost interested in being shown the true situation in the factory and requires the factory to record all working hours and provide correct attendance records and salary lists at all times. Providing incomplete or fake documents is a violation of H&M's basic requirements of transparency. The workers should be ensured minimum wages for normal working hours, be provided enough time to rest between each work shift and have at least one day off per week. All overtime should be voluntary, and compensated according to the law. We have requested the factory provide us with a remediation plan on how to, in a sustainable manner, reduce the overtime and ensure correct compensation for all working hours.

DeadLine Date: 10/15/2008

Supplier CAP: Action plan: In case that the wage of a certain month does not reach the ***AREA NAME*** minimum wage regulated by the Labor Law (especially aiming at the way of calculating wage based on piece rate wage), the factory will make up the gap in the name of allowance so that the wage of each month will meet or exceed the minimum wage standard. ***NAME*** of the Accounting Department will be responsible for calculating payment for the normal working hours and overtime hours to make sure that wages will not be lower than the minimum wage standard required by law so that the rights of workers can be protected. We will achieve this by the following three steps: Step 1: the overtime payment will be calculated in three ways as follows: 1)The overtime payment for normal working day = piece rate wage (or an hour wage) +RMB4.94/hour x overtime hours x 0.5 2)The overtime payment on off days = piece rate wage (or an hour wage) + RMB4.94/hour x overtime hours x 1.0 3)The

overtime payment on public holidays = piece rate wage (or an hour wage) + RMB4.94/hour x overtime hours x 2.0 Step 2: In case that the wage of a certain month does not reach the ***AREA NAME*** minimum wage regulated by the Labour Law (especially aiming at the way of calculating wage based on piece rate wage), the factory will make up the gap in the name of allowance so that the wage of each month will meet or exceed the minimum wage standard. ***NAME*** of the Accounting Department will be responsible for calculating payment for the normal working hours and overtime hours to make sure that the wages will not be lower than the minimum wage standard required by law so that the rights of workers can be protected. Step 3: Workers will be able to know the latest news about the update minimum wage of ***AREA NAME*** by the bulletin board or factory notice to assess whether their working reward will be legal or not. The administration staff, ***NAME***, will be responsible for this job. He/She will publish the update information of minimum wage standard in the factory in different ways, like having meeting, posting notice or publicizing on bulletin board, etc.

Supplier CAP Date: 10/15/2008
Action Taken:
Plan Complete: No
Plan Complete Date:
Action Verified: No
Action Verified Text:
Action Verified Date:
Comments:

Freedom of Association: B. Right to Freely Associate

FOA.2 Workers, without distinction whatsoever, shall have the right to establish and, subject only to the rules of the organization concerned, to join organizations of their own choosing without previous authorization. The right to freedom of association begins at the time that a worker seeks employment, and continues through the course of employment, including eventual termination of employment, and is applicable as well to unemployed and retired workers. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: 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). Also there was no trade union or worker committee available at the factory. And no trade unions representing workers in the facility.

Plan Of Action: The workers should be free to form associations of their own choosing and to bargain collectively. We don't accept any disciplinary actions from the factory against workers who choose to peacefully and lawfully organize or join an association. We have required the factory set up a policy and clearly communicate it to all workers. In addition, during our audits we put effort on building effective communication channels between workers and management.

DeadLine Date: 12/30/2008

Supplier CAP: Since we are small-sized Enterprise, we do not have many workers to organize the trade union. We prefer holding a meeting with workers every 3 months. Our meeting contents are about worker's opinion and to let workers make some suggestions to management about their rights and interests and so on, and we will keep the meeting record. Also we set the

suggestion box on the wall to let workers send their opinion anytime, and the manager, ***NAME***, will open the suggestion box everyday or every other day and follow up their opinion. With the suggestion box, workers can send anonymous letters, and factory will also follow up their opinion. Furthermore, we will protect our workers and no one can retaliate upon the workers who sent the letters. Also, our workers will have a workers representative. He/She is chosen by workers, and his/her responsibility is to reflect workers' opinion and suggestion to manager at any time.

Supplier CAP Date: 12/30/2008

Action Taken:

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text:

Action Verified Date:

Comments:

Freedom of Association: ZB. Other - Freedom of Association and Collective Bargaining

Other

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: No written policy about freedom of association or collective bargaining was available at the factory.

Plan Of Action: The workers should be free to form associations of their own choosing and to bargain collectively. We don't accept any disciplinary actions from the factory against workers who choose to peacefully and lawfully organize or join an association. We have required the factory set up a policy and clearly communicate it to all workers. In addition, during our audits we put effort on building effective communication channels between workers and management.

DeadLine Date: 11/15/2008

Supplier CAP: Step 1: We will set up written policy about freedom of association or collective bargaining so as to make it available at the factory at once. Step 2: We will input the policy in the factory's Behavior Standard and distribute it to every worker.

Supplier CAP Date: 11/15/2008

Action Taken:

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text:

Action Verified Date:

Comments:

Harassment or Abuse: Q. Other - Harassment or Abuse

Other

440015815G – China: H&M

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: No documented policy about prohibit of harassment or abuse was available at the factory.

Plan Of Action: H&M requires all factories producing H&M garments to develop internal regulations in line with our Code of Conduct and local legislation and clearly communicate these to all workers and management in the factory. These should include policies against sexual harassment, abusive behavior, forced labor, etc. We encourage the factory to collect and maintain an updated set of relevant local laws and regulations, publish policies openly and provide training for all levels in the factory on the contents of the factory's policies and regulations. We also encourage communicating this information in a handbook for all employees.

DeadLine Date: 11/15/2008

Supplier CAP: Step 1: We will set up the documented policy about prohibition of harassment or abuse so as to make it available at the factory at once. Step 2: We will input the policy into the factory's behavior standard and distribute it to every worker.

Supplier CAP Date: 11/15/2008

Action Taken:

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text:

Action Verified Date:

Comments:

Non-Discrimination: O. Other - Non-Discrimination

Other

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: No documented procedure or policy about non-discrimination was available at the factory.

Plan Of Action: H&M requires all factories producing H&M garments to develop internal regulations in line with our Code of Conduct and local legislation and clearly communicate these to all workers and management in the factory. These should include policies against discrimination. We encourage the factory to collect and maintain an updated set of relevant local laws and regulations, publish policies openly and provide training for all levels in the factory on the contents of the factory's policies and regulations. We also encourage communicating this information in a handbook for all employees.

DeadLine Date: 11/15/2008

Supplier CAP: Step 1: We will set up the documented procedure and policy about non-discrimination so as to make it available at the factory at once. Step 2: We will input this policy into the factory's Behavior Standard and distribute it to every worker.

Supplier CAP Date: 11/15/2008
 Action Taken:
 Plan Complete: No
 Plan Complete Date:
 Action Verified: No
 Action Verified Text:
 Action Verified Date:
 Comments:

Miscellaneous: A. Code Awareness

GEN.1 Establish and articulate clear, written workplace standards. Formally convey those standards to Company factories as well as to licensees, contractors and suppliers.

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: The company did not provide a Code of Conduct to be posted on site.
Plan Of Action: All suppliers are informed of our Code of Conduct both through individual meetings with our CoC Department and through workshops. Generally H&M does not require our Code of Conduct be posted in the factory. Instead we encourage the factories to develop internal regulations in line with our Code of Conduct and local legislation and to clearly communicate these to all workers through trainings, distributing handbooks or posting on the notice boards, etc.

DeadLine Date: 12/30/2008
Supplier CAP: Step 1: We have posted a Code of Conduct on site at once. Step 2: Based on the code of conduct, we will make internal regulations in our factory, and the regulation will be more detailed and practical for our factory. Step 3: The manager will provide a training for all new personnel. And for other workers, we will arrange a meeting and explain to them our factory rules and regulations system.

Supplier CAP Date: 12/30/2008
 Action Taken:
 Plan Complete: No
 Plan Complete Date:
 Action Verified: No
 Action Verified Text:
 Action Verified Date:
 Comments:

GEN.3 Develop a secure communications channel, in a manner appropriate to the culture and situation, to enable Company employees and employees of contractors and suppliers to report to the Company on noncompliance with the workplace standards, with security that they shall not be punished or prejudiced for doing so.

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External	SGS (Societe General du Serveillance)	1 (out of 5)

Monitoring

Explanation: The company trained the factory management on the establishment of non-retaliation policy, but there was no written non-retaliation policy established, the factory said the policy was in process and they had educated the workers the policy orally.

Plan Of Action: H&M requires all factories producing H&M garments to develop internal regulations in line with our Code of Conduct and local legislation and clearly communicate these to all workers and management in the factory. These should include policy of non-retaliation against workers.

DeadLine Date: 11/15/2008

Supplier CAP: Step 1: We will set up written non-retaliation policy at once. Step 2: We will input the policy into the factory's Behavior Standard and distribute it to every worker.

Supplier CAP Date: 11/15/2008

Action Taken:

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text:

Action Verified Date:

Comments:

Health and Safety: H. Permits and Certificates

H&S.8 The employer shall at all times be in possession of all legally required and valid permits and certificates related to health and safety issues, such as those related to the purchase and storage of chemicals, fire safety inspections, inspection of machinery, and (chemical) waste disposal. (P)

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: Finding 1: It was noted that one electrician of the factory had no license. It violated the article 55 of china labor law: Laborers to be engaged in specialized operations must receive specialized training and acquire qualifications for such special operations. Finding2: It was noted that no hygiene license for the canteen and the kitchen. It violated the article 27 of Food Hygiene Law of the People's Republic of China: Enterprises engaged in food production or marketing as well as street food peddlers must obtain a hygiene license issued by the administrative department for health before they shall be permitted to apply for registration with the administrative departments for industry and commerce. Any person without a hygiene license may not be engaged in food production or marketing. Finding3: It was noted that all workers working in the canteen did not obtain health examination certificates. It violated the article 26 of Food Hygiene Law of the People's Republic of China: All persons engaged in food production or marketing must undergo an annual medical examination; persons newly employed or serving temporarily in this field must also undergo a medical examination and may not start work until they have obtained a health certificate.

Plan Of Action: H&M requires that safety in the factory as well as in the dormitory is maintained according to local law and our Code of Conduct. Workers' safety should be a priority at all times, and all electrical installation should

be installed properly by qualified electricians. We also encourage the factory to participate in external training on health and safety in order to improve the health and safety awareness in the factory. If a factory has a canteen/dining area, it should be set up as per local requirements.

DeadLine Date: 02/04/2009

Supplier CAP: Finding1: A senior electrician, ***NAME***, has been working in our factory. He has been working for more than 10 years on the electric installation and he has never made mistake or caused any accident. Now he is responsible for training new electricians on electric knowledge. Finding2: The factory now is on application to ***AREA NAME*** Sanitation Administration for the hygiene license for the canteen and kitchen. Step 1: We will contact ***AREA NAME*** Sanitation Administration. Step 2: We will wait for sanitation Administration's visit to our canteen and kitchen. Step 3: After their inspection, we will get the hygiene license. Finding 3: There is only one chef in our factory now. We have submitted an application to ***AREA NAME*** Hospital for health certificate for the chef. The physical examination and the health certificate shall be based on chef standard. Step 1: We will contact ***AREA NAME*** Hospital. Step 2: We will arrange the Chef to the hospital and receive physical examination. Step 3: We will wait for 1 week at least and then get the health certificate.

Supplier CAP Date: 12/04/2008

Action Taken:

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text:

Action Verified Date:

Comments:

Health and Safety: J. Safety Equipment and First Aid Training

H&S.10 All safety and medical equipment (such as fire fighting equipment, first aid kits, etc.) shall be available in sufficient numbers throughout the factory, maintained and stocked as prescribed and easily accessible to workers. A sufficient number of workers shall be trained in first aid and fire fighting techniques. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: Based on site observation, it was noted that no fire extinguisher was available for one of the raw materials warehouse (about 50 S.Q meters) at the factory. It violated the article 14 of Fire Prevention Law of the People's Republic of China: Organs, societies, enterprises and institutions should fulfill the following fire prevention safety responsibilities: â€¦ (5) deploying fire-fighting facilities and equipment, putting up fire prevention safety signs pursuant to relevant state provisions, and organizing inspection and maintenance at regular intervals to ensure that fire-fighting facilities and equipment are in perfect condition and effective. Root Cause: The factory was lack of awareness for equipping extinguishers for such warehouse.

Plan Of Action: H&M requires that safety in the factory as well as the dormitory is maintained according to local law and our Code of Conduct. Workers' safety should be a priority at all times and we require our factories to ensure that emergency exits are clear and unlocked at all times. Workers

should be aware of and trained in fire safety and evacuation, and all relevant equipment such as fire extinguishers, fire alarms, evacuation plans and emergency exit lights should be functioning and properly situated. We also encourage the factory to participate in external training on health and safety in order to improve the health and safety awareness in the factory.

DeadLine Date: 11/15/2008
Supplier CAP: We have bought extinguishers at once and have put it in the warehouse already.
Supplier CAP Date: 11/15/2008
Action Taken:
Plan Complete: No
Plan Complete Date:
Action Verified: No
Action Verified Text:
Action Verified Date:
Comments: .

Health and Safety: K. Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: Based on site observation, it was noted that some of the spinning operators did not wear earplugs during the operation, and the cutting belts operators were not provided active carbon masks. It violated Production Safety Law of the People's Republic of China, Article 37: The production and business operation entities shall provide labor protection articles that meet the national standards or industrial standards to the employees thereof, supervise and educate them to wear or use these articles according to the prescribed rules.

Plan Of Action: The workers should be provided with relevant personal protective equipment depending on work process, along with education both orally and in writing in their native language on how to use it.

DeadLine Date: 12/30/2008
Supplier CAP: Step 1: We will provide earplugs and masks to the concerned workers.
 Step 2: ***NAME***, management of the factory, will be responsible for supervising the workers' wearing PPEs Step 3: ***NAME*** is also responsible for training fresh men and other workers every season on the use of PPEs, emphasizing its importance to their health.

Supplier CAP Date: 12/30/2008
Action Taken:
Plan Complete: No
Plan Complete Date:
Action Verified: No
Action Verified Text:

Action Verified Date:

Comments:

Health and Safety: R. Machinery Maintenance and Worker Training

H&S.18 All production machinery, equipment and tools shall be regularly maintained and properly guarded. Workers shall receive training in the proper use and safe operation of machinery, equipment and tools they use. Employers shall ensure safety instructions are either displayed/posted near all machinery or are readily accessible to the workers. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: No sign or posters in cutting belts and spinning workshops were available to remind workers of wearing PPEs.

Plan Of Action: The workers should be provided with relevant personal protective equipment depending on work process, along with education both orally and in writing in their native language on how to use it.

DeadLine Date: 12/30/2008

Supplier CAP: Step 1: We have posted the sign in cutting belts and spinning workshops to remind workers of wearing PPEs. Step 2: ***NAME*** is responsible for supervising workers wearing PPEs Step 3: ***NAME*** is also responsible for training the fresh men and other workers every season on the use of PPEs, emphasizing its importance to their health.

Supplier CAP Date: 12/30/2008

Action Taken:

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text:

Action Verified Date:

Comments:

Hours of Work: A. General Compliance Hours of Work

HOW.1 Employers shall comply with all local laws, regulations and procedures concerning hours of work, public holidays and leave. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: Based on attendance records from Oct 2007 till the audit date provided by the factory, all workers' weekly working hours were not more than 60 hours, but about 68% of workers covered each production dept. had OT were more than 36 hours per month, the maximum monthly OT was up to 70 hours. The OT working was arranged as a general situation. The workers indicated they were willing to have OT to earn more money, otherwise they would leave the factory if less OT were arranged at one

factory. On the other hand, the factory tried to arrange more OT to satisfy the workers' opinion in order to keep the workforce. All of the interviewees stated they were free to choose whether OT or not, and they were satisfied with the OT arrangement in the factory. It violated the article 41 of china labor law: The employing unit may extend working hours due to the requirements of its production or business after consultation with the trade union and laborers, but the extended working hour for a day shall generally not exceed one hour; if such extension is called for due to special reasons, the extended hours shall not exceed three hours a day under the condition that the health of laborers is guaranteed. However, the total extension in a month shall not exceed thirty six hours.

Plan Of Action: H&M is first and foremost interested in being shown the true situation in the factory and requires the factory to record all working hours and provide correct attendance records and salary lists at all times. Providing incomplete or fake documents is a violation of H&M's basic requirements of transparency. The workers should be provided enough time to rest between each work shift, and have at least one day off per week. All overtime should be voluntary, and compensated according to the law. We have requested the factory provide us with a remediation plan on how to, in a sustainable manner, reduce the overtime. Our aim is to, through dialogue, encourage the factory to establish a system to reduce the OT in order to meet the legal limit of OT hours per month and provide compensation for all OT hours according to law. The long term aim is to reduce the overtime hours through improved production planning and efficiency. In the short term, we require the factory to ensure that workers have one day off per week, and reduce the number of overtime hours in weekdays.

DeadLine Date: 03/15/2010

Supplier CAP: Now we are trying to reduce the overtime work by the following steps:
 Step 1: Three new workers are added to the Packing Department, so there are eleven packers and now the working intensity is greatly lessened. Step 2: In addition, it is now set as a rule that workers in the Packing Department and Final Product Processing Department will rest on Sundays. In this way, the overtime is also reduced.

Supplier CAP Date: 03/15/2010

Action Taken:

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text:

Action Verified Date:

Comments:

Hours of Work: B. Rest Day

HOW.2 Workers shall be entitled to at least one day off in every seven-day period. If workers must work on a rest day, an alternative day off must be provided within that same seven-day period or immediately following the seven-day period. (P)

Audit Date	Audit Type	Audit Scope	Auditor	Score
11/12/2008	External	FLA Independent External Monitoring	SGS (Societe General du Serveillance)	1 (out of 5)

Explanation: Based on attendance records from Oct 2007 till the audit date provided by the factory, 50% of workers had not received at least one day off in every seven-days period before Aug 2008, the max. consecutive working days

were 10 days usually. But since Aug 2008, it was noted that all workers rest on Sundays according to H&M requirement. It violated the article 38 of china labor law: The employing unit shall guarantee that its staff and workers have at least one day off in a week.

Plan Of Action: H&M is first and foremost interested in being shown the true situation in the factory and requires the factory to record all working hours and provide correct attendance records and salary lists at all times. Providing incomplete or fake documents is a violation of H&M's basic requirements of transparency. The workers should be provided enough time to rest between each work shift, and have at least one day off per week. All overtime should be voluntary, and compensated according to the law. We have requested the factory provide us with a remediation plan on how to, in a sustainable manner, reduce the overtime. Our aim is to, through dialogue, encourage the factory to establish a system to reduce the OT in order to meet the legal limit of OT hours per month and provide compensation for all OT hours according to law. The long term aim is to reduce the overtime hours through improved production planning and efficiency. In the short term, we require the factory to ensure that workers have one day off per week, and reduce the number of overtime hours in weekdays.

DeadLine Date: 10/15/2008

Supplier CAP: Now we are trying to reduce the overtime work by the following steps:
Step 1: Three new workers are added to the Packing Department, so there are eleven packers and now the working intensity is greatly lessened. Step 2: In addition, it is now set as a rule that workers in the Packing Department and Final Product Processing Department will rest on Sundays. In this way, the overtime is also reduced.

Supplier CAP Date: 10/15/2008

Action Taken:

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text:

Action Verified Date:

Comments:
