

LABOR COMPLIANCE ASSESSMENT EXECUTIVE SUMMARY (ES)



This report only provides a summary of the findings from the assessment conducted on the below date. Each assessment requires that information be gathered from a minimum sampling of provided records/documents, worker interviews, management interviews & visual observations. Thus, the information provided in this document may not necessarily represent the true compliance level of the factory.

A. FACTORY DETAILS

Client/Buyer:	Fair Labor Association		
Report No:	***FLA0804003		
Assessment Date:	April 14 th - 15 th , 2008		
Assessment Type:	Verification Assessment		
Result:	Needs Improvement		
Factory Name:	Mainland Headwear Holdings Limited (Dongguan)		
Factory AKA:	Nil		
Address:	Xinmalian Industrial Zone, Makeng, Dalang Town, Dongguan City, Guangdong Province		
Country:	China		
Primary Contact:	Mr. Qinghui He	Title:	Director / General Manager
Phone:	86-769-8348 9888	Fax:	86-769-8348 9666
E-Mail:	Headoffice@mainland.com.hk		
Agent Name:	---		
Vendor Name:	---		
Level Works Field Staff:	*** & ***		
Other parties present:	Nil		
Report Written by:	***		
Report Reviewed by:	***		

B. ASSESSMENT TIME FRAME AND SCOPE

This verification assessment started at 11:10am on April 14th, 2008 and ended at 4:30pm on April 15th, 2008. Two Level Works field staffs (male and female) were assigned to verify the overall compliance status of the factory against FLA benchmarks, applicable local laws and a review of alleged issues from Play Fair report and Brands audit reports. The assessment components included opening and ongoing discussions with management regarding factory practices, a review of documentation and records, a review of management systems, a health & safety tour, employee interviews and a final closing meeting with management. (**Notes: Auditors arrived at the factory at about 9:45am on April 14th, 2008, due to Mr. Qinghui He / Director was not in the factory at that time, the audit team were not allowed to start audit until Mr. Qinghui He came back factory at 11:10am.)

C. FACTORY OVERVIEW

Mainland Headwear Holdings Limited (Dongguan) was established in 2004 and is located at Xinmalian Industrial Zone, Makeng, Dalang Town, Dongguan City, Guangdong Province, and China. This was a subsidiary factory of Mainland Headwear Holdings Limited. The factory specialized in the manufacturing of headwear. The main production processes included: Cutting, Sewing, Finishing. The factory consisted of 1 block of 3-storey production building; 1 block of 5-storey dormitory building; one kitchen and canteen was also available. A total of 95 employees were currently working at the factory, which included 75 production workers and 20 office staffs. According to management and provided records the working hours were noted to be from 7:30am to 5:30PM with 90 minutes of lunch-time break from 12:00pm to 1:30pm. The employees worked for 5 days a week, Monday to Friday, in one shift. The employees' wages were calculated on hourly/piece rate basis. According to management, no obvious peak or non-peak production periods in factory. There is a labor union established in the factory.

D. BUYERS & AUDITING EXPOSURE

According to management the major buyers included *** (12%), *** (10%) and *** (11%) etc. The factory claimed to go through 2 to 3 labor compliance assessments per year from different clients. Therefore, the factory had a good understanding of the assessment process requirements. The most recent assessment was conducted by *** on behalf of *** in March 2008.

E. OPENING MEETING

Mr. Qinghui He / Director (General Manager), Mr. Aimin Zhan / Administrative Supervisor and other management participated in the opening meeting. Level Works staff provided a brief description of the assessment process, scope and required documentation, as well as explained the FLA expectations. Management was also provided the Level Works Code of Ethics (COE) for review and signature. The management seemed open to the audit and claimed they would provide all necessary documentation as requested.

F. VERIFICATION SUMMARY

1. CHILD LABOR

➤ Alleged Issues:

Play Fair Report: Minors are hired with false identification papers;

From Brands Audit Reports: 1). No related policy for protecting child labor. 2). Two invalid

ID cards are found among the personal files.

- **From Verification Assessment:** The factory has established an anti-child labor policy (Effective date: June 13th, 2007). The policy states that the factory will ensure workers under legal minimum age are not hired, that covers the legal elements. An anti-child labor and remediation procedure was also established, the procedure is approved by top management (Effective date: November 21st, 2007). The procedures clearly stated what action they will take to identify workers ages and the remediation measures if child labor was employed unmeant; They also established a juvenile workers working procedure (Effective date: November 21st, 2007), the purpose of the procedure is to ensure hire juvenile workers according to legal requirements, such as, proper health check, registration under labor department and job position arrangement etc. The policy and procedures are communicated to management staffs and whole workforce through notice board, memos. According to management and workers interview, they will also provide training to its workforce at a quarterly basis. The factory provided related documentation, such as training records for review onsite. Furthermore, ID cards copies are maintained in all employee files. It's been determined that all employees were over the minimum required age (16 years old) at the time of employment based on employee files reviewing and in depth workers interviews.

2. FORCED LABOR

- **Alleged Issues:**
Play Fair Report: Factory refuses to accept resignation from workers, denying them the 30 days pay required by law if workers give notice;
- **From Verification Assessment:**
The factory has established a written anti-forced labor policy that is included in the workers handbook and recruitment procedure (Effective date: June 28th, 2004). The factory has established procedures in prohibiting and prevention of force labor issues, such as no forced overtime, no employing forced labor, no deposit or ID Cards withholding etc. The policy and procedures are communicated to management staffs and whole workforce through notice board, memos. According to management and workers interview, they will also provide training to its workforce at a quarterly basis. The factory provided related documentation, such as training records for review onsite. Furthermore, through workers interview, all workers claimed that they worked overtime hours voluntarily; they were free to quit their job and could leave upon advance notice (one month) with no penalty; labor contracts are signed where legally required; no deposit and withholding ID cards.

3. ENVIRONMENT

- **Alleged Issues:**
Play Fair Report: Nil;
Brands Audit Reports: Nil
- **From Verification Assessment:**
The factory is ISO14001 certified by CCIC. They have established a comprehensive environment management system, as series of procedures and work instructions are reviewed onsite, such as, Environmental Safety Management procedure (April 20th, 2007) etc. The policy and procedures are communicated to management staffs and whole workforce through notice board, memos. Environmental monitoring and testing reports from local environmental government depart were available and valid.

4. HARASSMENT, ABUSE & DISCIPLINARY PRACTICES

➤ **Alleged Issues:**

Play Fair Report: Nil;

Brands Audit Reports Audit Report: Nil

➤ **From Verification Assessment:**

Encouragement and Punishment Rule and Procedure including in Employee Handbook, the procedure stipulates the disciplinary practices adopted by factory, these included: verbal warning, minor defect, major defect, demotion and dismiss. There is a grievance procedure in place, the workers can complain to top management through suggestion boxes or through telephone etc. The policy and procedures are communicated to management staffs and whole workforce through notice board, memos. According to management and workers interview, they will also provide orientation training to newly employed workers and regular trainings to whole workforce at a quarterly basis. The factory provided related documentation, such as training records for review onsite. Furthermore, through workers interview, all of them claimed that no harassment or abuse issue happened in factory.

5. FREEDOM OF ASSOCIATION

➤ **Alleged Issues:**

Play Fair Report: No committee, council, or arm of the ACFTU;

Brands Audit Reports: Nil

➤ **From Verification Assessment:**

The factory has established a written policy that protects the rights of workers freedom of association that is legal within the framework of China. Following procedures and related documents in writing are provided: Labor Union Election Procedure (Effective date: September 5th, 2006), Labor Union Approval (Effective date: December 7th, 2005); Labor Union Election Result Approval (Effective date: March 5th, 2007); Orientation training records. There is a labor union in factory which was established and approved by local government in 2005. The labor union chairman and members are selected by workers themselves and finally approved by local government (the current voting date, and the selected members would hold the post for 3 years); The chairman of labor union named Mr. Aimin Zhan was the administrative supervisor of the facility and other members were safety guards, electrician of the factory and productions workers. The important responsibility of the labor union is promoting the communication between employer and employees. The labor union held meeting with factory management quarterly and discussed about workers complains & suggestion, the improvement of working condition etc. No employer interference or control was detected during this audit.

6. DISCRIMINATION

➤ **Alleged Issues:**

Play Fair Report: Nil;

Brands Audit Reports: Nil

➤ **From Verification Assessment:**

The factory has established an anti-discrimination policy and anti-discrimination procedure (Effective date: June 28th, 2004), the procedure stipulates that all workers are equal at the time of hiring, promotion, receiving of bonus, receiving training, fair treatment; Pregnant test is prohibited by the factory. The policy and procedures are communicated to management staffs and whole workforce through notice board, memos. According to management and workers interview, they will also provide orientation training to newly employed workers and regular trainings to whole workforce at a quarterly basis. The factory provided related documentation, such as training records for

review onsite. Furthermore, there is a grievance system in place, the workers can make complains to top management through suggestion boxes or telephone etc. Moreover, through workers interview, all workers claimed that no discrimination issue happened in factory. Job advertisements were also reviewed, no discrimination articles or statements were noted.

7. WAGES & BENEFITS:

➤ **Alleged Issues:**

Play Fair Report: 1) Hourly workers underpaid 37.5%. 2) Piece rate workers underpaid 57%. 3) Maternity leave is not provided. Unpaid leave only. Labor code allows 90 days maternity leave with pay;

Brands Audit Reports: Nil

➤ **From Verification Assessment:**

Auditors noted that the provided attendance records were incomplete. The factory was working additional hours that were not being recorded on the timecard recording system. Therefore, the compliance status of minimum wage, overtime wage and overtime hours could not be verified during this audit. Nonetheless, the auditors did review the incomplete records. In total, twelve months (March 2007 to February 2008) payroll records were provided for review. A sampling of these incomplete records for the months of October 2007 (random), December 2007 (random) and February 2008 (most current) were reviewed. Wages were calculated on hourly / piece basis and were paid on 15th of each month. The workers earned a monthly wage of RMB 689 ~ RMB 2048. The lowest hourly wage was RMB 4.12. No workers' hourly wage was found lower than the local legal minimum wage standard and no workers' overtime wage was found lower than the legal set.

8. HOURS OF WORK:

➤ **Alleged Issues:**

Play Fair Report: Overtime up to 5.5 hrs weekdays and Saturdays. Normal workday is 13.5 hours; 26 days a month (22 + 4 Saturdays);

Brands Audit Reports: 1) It was noted that the monthly overtime hours of all the 20 randomly selected workers ranged from 45- to 50 hours in May 2007, 4 out of 5 ranged from 47.5 to 52.5 hours in April 2007 and all the 5 ranged from 50 to 55 hours in March 2007. 2) It was noted that the monthly overtime hours of all the 20 randomly selected workers ranged from 45- to 50 hours in May 2007, 4 out of 5 ranged from 47.5 to 52.5 hours in April 2007 and all the 5 ranged from 50 to 55 hours in March 2007. 3) It was noted that the monthly overtime hours of all the 20 randomly selected workers ranged from 45- to 50 hours in May 2007, 4 out of 5 ranged from 47.5 to 52.5 hours in April 2007 and all the 5 ranged from 50 to 55 hours in March 2007.

➤ **From Verification Assessment:**

Auditors noted that the provided attendance records were incomplete. The factory was working additional hours that were not being recorded on the timecard recording system. Therefore, the compliance status of minimum wage, overtime wage and overtime hours could not be verified during this audit. Nonetheless, the auditors did review the incomplete records. In total, fourteen months (March 2007 to April 2008) timecard records were provided for review. A sampling of these incomplete records for the months of October 2007 (random), December 2007 (random), February 2008 (most recent) were reviewed. No overtime work was carried out at nights, and all were 40 hours per week. The most continuous days without rest were 5, with the average continuous days without rest being 5.

9. OCCUPATIONAL HEALTH AND SAFETY

➤ **Alleged Issues:**

Play Fair Report: High levels of dust; insufficient ventilation;

Brands Audit Reports: 1) Lack for emergency exit signs and emergency lights, No renewal for first aid kit. 2) It was noted that all extinguishes in the dormitory were BC type, not applicable for fire of type A. 3) It was noted that no fire service inspection certificate for the additional 9/F of production building B was provided by the factory. 4) It was noted that 30 sets of high feet sewing machines without eye guards, which workers were exposed to needle debris condition. 5) Upper pulley guards are missing for two sewing machines and lower pulley guards are missing for two sewing machines and all the button-hole and bar tack machines. 6) Inner covers are missing for three control panels and approximately 5% of electrical switches are not labeled. 7) No exit signs are marked for the exits in one canteen and kitchen and emergency lights are missing there. 8) The factory has used four of the lifts by the findings of examination, but only two of the lifts are certificate.

➤ **From Verification Assessment:**

All areas of the factory were toured, including: warehouse, cutting, sewing, pressing and finishing section, canteen, and dormitories were toured during the assessment. The factory general working environment and housing keeping were relatively good and no major health and safety violation was noted. The factory turned out to be a better compliance level regarding to health and safety issues; such as all fire fighting equipments, exit signs were properly installed and well maintained, workers were wearing PPE correctly, drinking waters and first aid kits were provided and installed on workshops, machines were equipped with proper protective devices, each workshop with sufficient ventilation and the working environment were relative good and comfort etc. All above alleged health and safety issues were not surfaced during this verification assessment.

G. CLOSING MEETING

Mr. Qinghui He / Director (General Manager), Mr. Aimin Zhan / Administrative Supervisor and other management attended the closing meeting. Level Works staff communicated all the findings orally in detail to them and allowed them to ask questions and make any needed clarifications. The Level Works team thanked them for their cooperation and left the factory at 4:30PM on April 15th, 2008.

H. GENERAL INFORMATION (BASED ON SAMPLE)

<i>No. of Workers:</i>	95	<i>Product Type(s):</i>	Headwear
<i>Migrant Worker Breakdown (if applicable):</i>	Nil	<i>Average Units Produced/week:</i>	5,000 Dozens
<i>Name of Client Brand Produced:</i>	---	<i>Units Produced in Past 3 months:</i>	60,000 Dozens
<i>Production % for Client:</i>	---	<i>Unit Projection for Next 3 months:</i>	60,000 Dozens
<i>Production % for</i>		<i>Sampling Plan</i>	

VENDOR:			
<i>Other brands/buyers by %:</i>	*** (12%), *** (10%), *** (11%)	<i>(interviews & Records):</i>	27 workers interview (10 for off-site and 17 for on-site); 35 workers' personnel files and 35 workers' timecard records and payroll records

WAGES

<i>Legal Overtime Wage:</i>	100% of normal rate for normal day overtime hours, 200% of normal rate for rest days overtime hours, 300% of normal rate for official public holidays overtime hours	<i>Legal Min Wage (Monthly/Daily/Hourly) :</i>	RMB690 per month, as equivalent to RMB 3.97 / hour
<i>Overtime Wages Paid:</i>	Could not be verified - Incomplete Timecard Records	<i>Lowest hourly wage:</i>	Could not be verified - Incomplete Timecard Records
<i>Factory Payment Cycle:</i>	Monthly	<i>Average hourly wage:</i>	Could not be verified - Incomplete Timecard Records
<i>Payment System (piece or hourly):</i>	Piece/hourly rate	<i>Largest Minimum Wage Gap/hour:</i>	Could not be verified - Incomplete Timecard Records
<i>% of workers paid at least the MONTHLY min wage:</i>	Could not be verified - Incomplete Timecard Records	<i>Largest TOTAL Wage Gap/month (if applicable):</i>	Could not be verified - Incomplete Timecard Records
<i>% of workers paid at least the HOURLY min wage:</i>	Could not be verified - Incomplete Timecard Records	<i>Average Total Take-home wages/month:</i>	Could not be verified - Incomplete Timecard Records

HOURS of WORK

<i>Legal work week:</i>	40 hours/week	<i>Highest work hours / day:</i>	Could not be verified - Incomplete Timecard Records
<i>Max legal OT allowed:</i>	3 hours/day, 36 hours/ month	<i>Highest work hours / week:</i>	Could not be verified - Incomplete Timecard Records
<i>Peak Production Months:</i>	No obvious peak production month	<i>Average work hours / week:</i>	Could not be verified - Incomplete Timecard Records
<i>Type of time keeping system:</i>	timecard	<i>Most continuous days without rest:</i>	Could not be verified - Incomplete Timecard Records

<i>Legal rest days / week:</i>	2 days, Saturday & Sunday	<i>Average continuous days without rest:</i>	Could not be verified - Incomplete Timecard Records
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CHILD LABOR

<i>Min Legal Work Age:</i>	16 years old	<i>Youngest Worker found:</i>	17 years old
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FREEDOM of ASSOCIATION

<i>Union name, if applicable:</i>	Labor Union	<i>Is there a CBA in place:</i>	No
<i>Name(s) of Union Rep:</i>	Mr. Aiming Zhan	<i>Period CBA is valid:</i>	N/A
<i>Is there a worker committee of any kind?</i>	If "yes", describe: N/A	<i>Monthly Employee Union fees:</i>	Nil

PRODUCTION PROFILE

<i>Production Processes</i>	<i>No of Workers</i>
Cutting	3
Sewing	64
Finishing	8