COMPANY: H&M Hennes & Mauritz AB
COUNTRY: China
FACTORY CODE: 440015822G
MONITOR: Level Works Limited
AUDIT DATE: September 19 – 20, 2008
PRODUCTS: Garments
PROCESSES: Cutting, Sewing, Pressing, Inspection, Packing
NUMBER OF WORKERS: 342

For an explanation on how to read this report, please visit the FLA website here.
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Wages, Benefits and Overtime Compensation: Holidays, Leave, Legal Benefits and Bonuses

WBOT.5 Employers shall provide all legally mandated holidays, leave, benefits and bonuses, such as official holidays, annual leave, sick leave, severance payments and 13th month payments, to all eligible workers within legally defined time periods. In addition, all leave and bonuses shall be calculated correctly. (S)

Noncompliance

Explanation: In accordance with PRC Labor Law article 72, employing unit and workers must participate in social insurance and pay social insurance premiums in accordance with the law; and according to article 73, laborers shall enjoy social insurance and benefits under the following circumstances: a) retirement, b) illness or injury, c) disability caused by work-related injury or occupational disease, d) unemployment; and e) childbearing. Therefore, according to this national law, all 5 types of social insurance schemes mentioned above should be provided for all employees of a factory. It was noted that all workers participated in disability caused by work-related injury or occupational disease insurance, only 264 of 342 workers participated in injury, retirement, unemployment and childbearing insurances. As per factory management, it was noted that all workers (both local and migrant workers from other provinces) could participate in all 5 types of social insurance.

Plan Of Action: H&M requires that our factories purchase industrial injury insurance that covers the whole workforce. We also require that the workers are covered by all forms of social insurance that they are entitled to by national and local legislation.

Deadline Date: 10/22/2008

Supplier CAP: Factory will get in contact with local government and request a document to prove that the majority of workers participate in the social insurance and that the others participate in only injury insurance, which is the legal requirement.

Supplier CAP Date: 10/22/2008

Action Taken: Follow-up visit October 21, 2008: Factory received certificate from local social insurance bureau which shows that factory already meets basic requirements of local government.

Plan Complete:
Plan
Complete
Date:

Wages, Benefits and Overtime Compensation: Minimum Wage
WBOT.2 Employers shall pay workers at least the legal minimum wage or the prevailing industry wage, whichever is higher. (S)

Noncompliance

Explanation: Factory provided attendance records and payroll records were undependable and unverifiable; therefore, the compliance status of 'minimum wage', 'overtime wage' and 'overtime hours' could not be verified.

Supporting evidence/sources: Work Related Injury Records and production records (i.e., Metal Tools Using Records; Material Receiving and Issuing Records; Sample Testing Records) showed workers from cutting and sewing sections and warehouse worked on November 25, 2007; June 15, 2008; and August 9, 31, 2008 (Saturdays and Sundays). But, these Saturday and Sunday hours not indicated on workers' time attendance records; moreover, there is no information shown on payroll records to demonstrate these hours paid by factory. Corresponding workers interviewed to corroborate issue.

Plan Of Action: H&M requires factory to provide true documentation on salaries and working hours. Factory should pay at least minimum wage to workers according to law. We have initiated dialogue with factory to discuss cause of excessive OT. Aim is for factory to establish system to reduce OT in a sustainable manner. Long-term aim is to, through improved production planning and efficiency, steadily reduce OT hours in order to meet legal limit of OT hours per month and pay OT compensation according to law. In short term, we require factory to make sure they can ensure workers have 1 day off per week, steadily reduce number of OT hours on weekdays and pay OT compensation to workers accordingly.

Deadline Date:

Supplier CAP: According to verification, factory has proven that these discrepancies were caused by recorders’ mistake. We will inform responsible managers that all records must be treated carefully and make sure record is consistent with attendance. We promise that the document the auditor is shown is true.
Supplier CAP  10/22/2008
Date:

Action Taken:  July 2009: H&M believes that only long-term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish reliable and transparent attendance records in garment factories. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory’s performance.

Audit, March 5, 2009: During this audit we reviewed attendance system and wage rolls. It was found that factory still has no transparent or reliable set of electronic attendance records. Handwritten attendance records as well as wage rolls were reviewed and found to be verifiable and transparent.

Follow-up visit October 21, 2008: During this audit it was noted that workers worked OT at night from Monday to Friday and also on Saturday and Sunday. Total OT work hours from August 21 to September 20, 2008 exceeded legal limit. Factory was using handwritten time records to record work hours, including OT. These handwritten records can be matched with production and distribution records. Therefore, OT compensation was not sufficient for more than 50% of workers.

Plan Complete:

Plan Complete Date:
Wages, Benefits and Overtime Compensation: Payment for All Hours Worked

WBOT.7 Workers shall be paid for all hours worked in a workweek. Calculation of hours worked must include all time that the employer allows or requires the worker to work. (S)

Noncompliance

Explanation: Factory provided attendance records and payroll records were undependable and unverifiable; therefore, the compliance status of ‘minimum wage’, ‘overtime wage’ and ‘overtime hours’ could not be verified.

Supporting evidence/sources: Work Related Injury Records and production records (i.e., Metal Tools Using Records; Material Receiving and Issuing Records; Sample Testing Records) showed workers from cutting and sewing sections and warehouse worked on November 25, 2007; June 15, 2008; and August 9, 31, 2008 (Saturdays and Sundays). But, these Saturday and Sunday hours not indicated on workers’ time attendance records; moreover, there is no information shown on payroll records to demonstrate these hours paid by factory. Corresponding workers interviewed to corroborate issue.

Plan Of Action: H&M requires factory to provide true documentation on salaries and working hours. Transparency is one of the most important principles. Factory should pay at least minimum wage to workers according to law. We have initiated dialogue with factory to discuss cause of excessive OT. Aim is for factory to establish system to reduce OT in a sustainable manner. Long-term aim is to, through improved production planning and efficiency, steadily reduce OT hours in order to meet legal limit of OT hours per month and pay OT compensation according to law. In short term, we require factory to make sure they can ensure workers have 1 day off per week, steadily reduce number of OT hours on weekdays and pay OT compensation to workers accordingly.

Deadline Date: 10/22/2008

Supplier CAP: According to verification, factory has proven that these discrepancies were caused by the recorder’s mistake. We will inform the responsible managers that all records must be treated carefully and make sure the records are consistent with attendance. We promise that the document the auditor is shown is true.

Supplier CAP Date: 10/22/2008
**Action Taken:** **July 2009:** H&M believes that only long-term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish reliable and transparent attendance records in garment factories. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory's performance.

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**Follow-up visit October 21, 2008:** During this audit it was noted that workers worked OT at night from Monday to Friday and also on Saturday and Sunday. Total OT work hours from August 21 to September 20, 2008 exceeded legal limit. Factory was using handwritten time records to record work hours, including OT. These handwritten records can be matched with production and distribution records. Therefore, OT compensation was not sufficient for more than 50% of workers.

**Plan Complete:**

**Plan Complete Date:**
**Wages, Benefits and Overtime Compensation: Calculation Basis for Overtime Payments**

WBOT.8 Employers shall compensate workers for all hours worked. For workers on a piece rate payment scheme or any other incentive scheme, payments for overtime hours worked shall be calculated by applying the premium rate required by law or this Code on the same payment scheme as is used for calculating wages for normal working hours, unless the payment scheme used leads to higher wages for workers. (S)

**Noncompliance**

**Explanation:** Factory provided attendance records and payroll records were undependable and unverifiable; therefore, the compliance status of ‘minimum wage’, ‘overtime wage’ and ‘overtime hours’ could not be verified.

Supporting evidence/sources: Work Related Injury Records and production records (i.e., Metal Tools Using Records; Material Receiving and Issuing Records; Sample Testing Records) showed workers from cutting and sewing sections and warehouse worked on November 25, 2007; June 15, 2008; and August 9, 31, 2008 (Saturdays and Sundays). But, these Saturday and Sunday hours not indicated on workers’ time attendance records; moreover, there is no information shown on payroll records to demonstrate these hours paid by factory. Corresponding workers interviewed to corroborate issue.

**Plan Of Action:** H&M requires factory to provide true documentation on salaries and working hours. Transparency is one of the most important principles. Factory should pay at least minimum wage to workers according to law. We have initiated dialogue with factory to discuss cause of excessive OT. Aim is for factory to establish system to reduce OT in a sustainable manner. Long-term aim is to, through improved production planning and efficiency, steadily reduce OT hours in order to meet legal limit of OT hours per month and pay OT compensation according to law. In short term, we require factory to make sure they can ensure workers have 1 day off per week, steadily reduce number of OT hours on weekdays and pay OT compensation to workers accordingly.

**Deadline Date:**

**Supplier CAP:** According to the verification audit, the factory has proven these discrepancies were caused by the recorders’ mistake. We will inform the relevant managers all records must be treated carefully and make sure the record is consist with attendance. We promise to provide true documents to auditor.

**Supplier CAP Date:** 10/22/2008
Action Taken:  **July 2009:** H&M believes that only long-term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish reliable and transparent attendance records in garment factories. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory’s performance.

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Wages, Benefits and Overtime Compensation: 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)

Noncompliance

Explanation: Factory provided attendance records and payroll records were undependable and unverifiable; therefore, the compliance status of 'minimum wage', 'overtime wage' and 'overtime hours' could not be verified.

Supporting evidence/sources: Work Related Injury Records and production records (i.e., Metal Tools Using Records; Material Receiving and Issuing Records; Sample Testing Records) showed workers from cutting and sewing sections and warehouse worked on November 25, 2007; June 15, 2008; and August 9, 31, 2008 (Saturdays and Sundays). But, these Saturday and Sunday hours not indicated on workers' time attendance records; moreover, there is no information shown on payroll records to demonstrate these hours paid by factory. Corresponding workers interviewed to corroborate issue.

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Deadline Date: 10/22/2008

Supplier CAP: According to verification, factory has proven that these discrepancies were caused by the recorder’s mistake. We will inform the responsible managers that all records must be treated carefully and make sure the records are consistent with attendance. We promise that the document the auditor is shown is true.

Supplier CAP Date: 10/22/2008
Action Taken: July 2009: H&M believes that only long-term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish reliable and transparent attendance records in garment factories. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory's performance.

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Plan
Complete:

Plan
Complete
Date:
Wages, Benefits and Overtime Compensation: Accurate Calculation and Recording of Wage Compensation

WBOT.17 All payments to workers, including hourly wages, piecework, benefits, bonuses, and other incentives shall be calculated and recorded accurately. (S)

Noncompliance

Explanation: Factory provided attendance records and payroll records were undependable and unverifiable; therefore, the compliance status of 'minimum wage', 'overtime wage' and 'overtime hours' could not be verified.

Supporting evidence/sources: Work Related Injury Records and production records (i.e., Metal Tools Using Records; Material Receiving and Issuing Records; Sample Testing Records) showed workers from cutting and sewing sections and warehouse worked on November 25, 2007; June 15, 2008; and August 9, 31, 2008 (Saturdays and Sundays). But, these Saturday and Sunday hours not indicated on workers' time attendance records; moreover, there is no information shown on payroll records to demonstrate these hours paid by factory. Corresponding workers interviewed to corroborate issue.

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**Plan Complete:**

**Plan Complete Date:**
Wages, Benefits and Overtime Compensation: False Payroll Records

WBOT.19 Employers shall not use hidden or multiple payroll records in order to hide overtime, to falsely demonstrate hourly wages, or for any other fraudulent reason. Payroll records maintained shall be authentic and accurate. (P)

Noncompliance

Explanation: Factory provided attendance records and payroll records were undependable and unverifiable; therefore, the compliance status of 'minimum wage', 'overtime wage' and 'overtime hours' could not be verified.

Supporting evidence/sources: Work Related Injury Records and production records (i.e., Metal Tools Using Records; Material Receiving and Issuing Records; Sample Testing Records) showed workers from cutting and sewing sections and warehouse worked on November 25, 2007; June 15, 2008; and August 9, 31, 2008 (Saturdays and Sundays). But, these Saturday and Sunday hours not indicated on workers' time attendance records; moreover, there is no information shown on payroll records to demonstrate these hours paid by factory. Corresponding workers interviewed to corroborate issue.

Plan Of Action: H&M requires factory to provide true documentation on salaries and working hours. Transparency is one of our most important principles. Factory should pay at least minimum wage to workers according to law. We have initiated dialogue with factory to discuss cause of excessive OT. Aim is for factory to establish system to reduce OT in a sustainable manner. Long-term aim is to, through improved production planning and efficiency, steadily reduce OT hours in order to meet legal limit of OT hours per month and pay OT compensation according to law. In short term, we require factory to make sure they can ensure workers have 1 day off per week, steadily reduce number of OT hours on weekdays and pay OT compensation to workers accordingly.

Deadline Date: 10/22/2008

Supplier CAP: According to verification, factory has proven that these discrepancies were caused by the recorder's mistake. We will inform the responsible managers that all records must be treated carefully and make sure the records are consistent with attendance. We promise that the document the auditor is shown is true.

Supplier CAP Date: 10/22/2008
Action Taken: 

**July 2009:** H&M believes that only long-term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish reliable and transparent attendance records in garment factories. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory’s performance.

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Freedom of Association: 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)

Noncompliance

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.

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

Deadline Date: 10/22/2008

Supplier CAP: The factory has set up a policy recognizing and respecting freedom of association and collective bargaining. The factory has recognized the freedom of association and collective bargaining in the code of staff, and the trade union will ensure the workers can take their right of freedom of association and collective bargaining.

Supplier CAP Date: 10/22/2008
July 2009: H&M believes that only long-term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Recently, we have launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish working grievance and management worker dialogue systems. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory's performance.

Audit, March 25, 2009: The factory has set up systems for grievance handling and dialogue procedures. We interviewed the appointed responsible persons, reviewed the relevant documents, and made an assessment of the implementation and communication of the procedures. Although the procedures are documented, we found that these systems need strengthening.
Freedom of Association: Deduction of Union Dues and Other Fees

FOA.4 Employers cannot deduct union membership fees or any other union fees from workers' wages without the express and written consent of individual workers, unless specified otherwise in freely negotiated and valid collective bargaining agreements. (S)

Noncompliance

Explanation: It was noted that the factory deducted RMB 2.00 per month in trade union fees from workers' wages without the workers' written permission.

Plan Of Action: H&M requires that 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 encourage the factory to develop and maintain well functioning communication channels between workers and management. We will follow up on the remediation plan of the factory.

Deadline Date: 10/22/2008

Supplier CAP: Factory will obtain the workers' written permission immediately.

Supplier CAP Date: 10/22/2008

Action Taken: Follow-up visit October 21, 2008: According to workers interviews, it was noted that workers all know that the trade union fee is deducted from them each month. The factory was arranging to ask workers to sign a written permission to show their agreement to pay the trade union fee.

Plan Complete:
Freedom of Association: Employer Interference/Constitution, Elections, Administration, Activities and Programs

FOA.5 Employers shall not interfere with the right of workers to draw up their constitutions and rules, to elect their representatives in full freedom, to organize their administration and activities and to formulate their programs. (S)

Noncompliance

Explanation: The factory trade union representatives were all management staff or supervisors and did not include any production workers. At the same time, trade union representatives were appointed by the township trade union, but not elected by workers.

Plan Of Action: H&M requires that 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 encourage the factory to develop and maintain well functioning communication channels between workers and management.

Deadline Date: 12/01/2008

Supplier CAP: Factory has recognized the freedom of association and collective bargaining in code of conduct. Trade union will ensure that workers can utilize their freedom of association and collective bargaining. Factory will arrange an election before November 15 to vote for a production worker representative from among all workers. And then, production worker representatives will be involved in the collective bargaining agreement to guarantee the rights of workers.

Supplier CAP Date: 12/01/2008
Action Taken: July 2009: H&M believes that only long term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish working grievance and management worker dialogue systems. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit the factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory's performance.

Audit, March 25, 2009: The factory has set up systems for grievance handling and dialogue procedures. We interviewed the appointed responsible persons, reviewed the relevant documents, and made an assessment of implementation and communication of the procedures. Although the procedures are documented, we found that these systems need strengthening.

Follow-up visit October 21, 2008: The factory's trade union president planned to add 1 worker to workers' representatives of trade union. However, the factory still needs to get confirmation from union chief before deciding how to vote for this worker.
Freedom of Association: Right to Collective Bargaining/Compliance with Collective Bargaining Agreement

FOA.22 Employers, unions and workers shall honor in good faith, for the term of the agreement, the terms of any collective bargaining agreement they have agreed to and signed. Worker representatives and workers shall be able to raise issues regarding compliance with a collective bargaining agreement by the employer without retaliation or any negative effect on their employment status. (S)

Noncompliance

Explanation: It was noted that no production worker representatives were involved in the collective bargaining agreement.

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. In addition, during our audits we put effort on building effective communication channels between workers and management.

Deadline Date: 12/01/2008

Supplier CAP: Factory will elect a production worker representative.

Supplier CAP Date: 12/01/2008
Action Taken:  **July 2009:** H&M believes that only long term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish working grievance and management worker dialogue systems. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit the factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory’s performance.

**Audit, March 25, 2009:** The factory has set up systems for grievance handling and dialogue procedures. We interviewed the appointed responsible persons, reviewed the relevant documents, and made an assessment of implementation and communication of the procedures. Although the procedures are documented, we found that these systems need strengthening.

**Follow-up visit October 21, 2008:** Factory signed collective contracts once in 3 years from 2008. The factory's trade union president planned to add 1 worker to workers’ representatives of trade union. However, the factory still needs to get confirmation from union chief before deciding how to vote for this worker.
Child Labor: Employment of Young Workers

CL.6 Employers shall comply with all relevant laws that apply to young workers (i.e., those between the minimum working age and the age of 18) including regulations relating to hiring, working conditions, types of work, hours of work, proof of age documentation, and overtime. (P)

Noncompliance

Explanation: It was noted that no such registration had been done for juvenile workers. In accordance with Regulations for Special Protection of Juvenile Employees (Document No. 498) article 9, employment of juvenile workers should be registered.

Plan of Action: H&M requires factory to write a clear policy against the use of child labor and establish recruitment procedures in order to make sure that all new workers are above legal age. H&M requires the factory set up complete recruitment system according to the law.

Deadline Date: 10/22/2008

Supplier CAP: Factory has registered the juvenile workers at local government department. The policy for the recruitment of juvenile worker will be set up and implemented immediately.

Supplier CAP Date: 10/22/2008
Action Taken: July 2009: H&M believes that only long term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish working grievance and management worker dialogue systems. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit the factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory's performance.

Audit, March 25, 2009: We evaluated recruitment procedures of this factory. It was found that although they have a clear written policy that is in accordance with relevant laws and requirements, several other aspects of their recruitment system are in need of improvement.

Follow-up visit October 21, 2008: Currently, factory has 6 juvenile workers. The factory got the certificates from local government officials, who confirmed that the factory already has registered.

Plan Complete:  

Plan Complete Date:
**Code Awareness:**

GEN.2 Ensure that all Company factories as well as contractors and suppliers inform their employees about the workplace standards orally and through the posting of standards in a prominent place (in the local languages spoken by employees and managers) and undertake other efforts to educate employees about the standards on a regular basis.

**Noncompliance**

**Explanation:** It was noted that the factory did not post the company code of conduct or any its own standards. At the same time, company (H&M) had not communicated its association with FLA with the factory.

**Plan Of Action:**

All suppliers are informed of our CoC both through individual meetings with our CoC Department, and through workshops. It is responsibility of supplier to ensure that all subcontractors are informed of our code requirements. All subcontractors must pass a compliance audit prior to receiving the first order. During this occasion, subcontractor is further informed of our requirements, and has opportunity to ask questions to clarify if they have any questions. Generally, we do not require our code of conduct to be posted in factory. In case a factory produces for different buyers it might be confusing for the workers. Instead, we encourage factories to develop internal regulations in line with our code of conduct and local legislation and to clearly communicate these to all workers, for example, through a handbook for workers or on notice board. During our next follow up we will evaluate factory’s internal regulations, through worker and management interviews, as well as document review and workshop inspection, to ascertain if these comply with local legislation and our code of conduct. We will also hold a meeting with supplier and factory management about our association with FLA, and the implications of this for the factory.

**Deadline Date:** 10/22/2008

**Supplier CAP Date:**

The factory had set up the internal compliance policy. The relevant policy is introduced to the workers when they take the orientation training. The workers can also review the policy in the staff handbook.

**Supplier CAP Date:** 10/22/2008
Action Taken: **July 2009**: H&M believes that only long term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to set up a clear system concerning rules and regulations as well as legal requirements. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit the factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory's performance.

**Audit, March 25, 2009**: During this audit we reviewed factory's rules and regulations, and how they are implemented and communicated. We found that the factory has a clearly documented set of rules and regulations, which are in compliance with relevant legal requirements. However, we also found that the factory needs to strengthen both the communication of these regulations, as well as their implementation.
**Code Awareness:**

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.

**Noncompliance**

**Explanation:** It was noted that workers were not provided with a noncompliance reporting mechanism which allows factory workers to contact the company.

**Plan Of Action:** During our audits and discussions with factory, H&M encouraged the management to develop and deepen factory's own confidential noncompliance system. We support the factory in building a communication/dialogue system within factory in order to have a forum for workers to communicate grievances to management. During our audits, we regularly check function of these systems. At all H&M audits we conduct worker interviews. During these confidential, one-to-one interviews, business cards with a mobile number are provided to workers in case they need to contact and put forward their grievances directly to us. We encourage the business cards to be spread among all the workers in the factory.

**Deadline Date:**

**Supplier CAP:**

**Supplier CAP Date:** 10/22/2008

**Action Taken:** Audit, March 25, 2009: During this audit we conducted several worker interviews, at which we handed out the business cards with our mobile numbers for the workers to contact us. All the information coming through this confidential communication channel is recorded and followed up in the appropriate manner depending on the case.

**Plan Complete:**

**Plan Complete Date:**
Health and Safety: 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)

**Noncompliance**

**Explanation:** It was noted that there was no fire service inspection certificate provided by factory. In accordance with PRC Fire Service Law article 10, fire services department shall conduct inspection of building when construction is completed. The building shall not be used, if inspection has not been conducted or when building has not passed the inspection.

**Plan Of Action:** H&M requires that safety in factory is maintained according to local law and our code of conduct. During our audits we regularly check all relevant permits and certificates.

**Deadline Date:**

**Supplier CAP:** Factory will apply for the certificate from the local government.

**Supplier CAP Date:** 10/22/2008

**Action Taken:** Follow-up visit October 21, 2008: The factory’s workshop was built in 1993 without a fire service inspection certificate. However, the local fire department randomly checks this area once a year. Factory management arranged to re-apply for the fire service inspection and/or get the certificate from local fire department.

**Plan Complete:**

**Plan Complete Date:**

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Health and Safety: Evacuation Requirements and Procedure

H&S.9 All applicable legally required or recommended elements of safe evacuation (such as posting of evacuation plans, the installation and maintenance of an employee alarm and emergency lighting systems, ensuring aisles/exits are not blocked and that workers are not blocked within their workstations, employee education, evacuation procedures, etc.) shall be complied with. Workers shall be trained in evacuation procedures. Alarm systems shall be regularly tested and evacuation drills shall be undertaken at least annually. (S)

Noncompliance

Explanation: It was noted that 1 exit in cutting section was locked.

In accordance with PRC Fire Service Law article 14(6), enterprises and business units shall ensure that all evacuation passages and emergency exits are clear, and posted with fire safety evacuation signs. Not all workers in factory participated in fire evacuation drills.

Plan Of Action: H&M requires that safety in factory maintained according to local law and our code of conduct. We suggest factory set up a complete health and safety system, which includes checking that emergency exits are clear, that all fire prevention equipment maintained in good condition and that workers receive regular fire evacuation drills.

Deadline Date: 10/22/2008

Supplier CAP: 1. Factory will strengthen daily inspection to make sure all exits and fire extinguishers are available. Line supervisors will make sure no items are dumped by fire extinguishers or exits; security personnel will check effectiveness of fire safety facilities monthly.

2. Factory will arrange fire evacuation drill and make sure all workers participate.

Supplier CAP Date: 10/22/2008
**Action Taken:**

*July 2009:* H&M believe that only long term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. During this audit cycle we are therefore working with our suppliers and factories producing for us on how to establish or strengthen management systems in factories. This includes efforts on strengthening H&S management systems. As part of our capacity building effort, an initial assessment of existing management system will be made, after which H&M CoC teams will continually follow up and offer support on the ongoing remediation work.

*Audit, March 25, 2009:* It was found that some aisles were blocked by products. Furthermore, 1 of the emergency exits was locked; this is very serious and led to a discussion during management system evaluation. 1 more evacuation drill was arranged for the workforce since our last audit (conducted October 24, 2008).

*Follow-up visit October 21, 2008:* The factory unlocked the door in cutting workshop, but some fabric still blocked the emergency routes.

**Plan Complete:**

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**Plan Complete Date:**
Health and Safety: 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)

Noncompliance

Explanation: It was noted that 4 fire extinguishers were blocked by goods.

In accordance with Code for Design of Extinguisher Distribution in Buildings (GB 50140-2005) article 5.1.1, Fire extinguisher shall be installed in a distinct and easily accessed location, and shall not hinder the safety evacuation.

Plan Of Action: H&M requires that safety in factory maintained according to local law and our code of conduct. All the fire prevention equipment should be accessible at any time and keep in good condition.

Deadline Date: 10/22/2008

Supplier CAP: Factory will strengthen daily inspection to make sure all exits and fire extinguishers are available. Line supervisors will make sure no items are dumped by fire extinguishers or exits. The security personnel will check the effectiveness of fire safety facilities monthly.

Supplier CAP Date: 10/22/2008

Action Taken: July 2009: H&M believes that only long term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. During this audit cycle we are therefore working with our suppliers and factories producing for us on how to establish or strengthen management systems in factories. This includes efforts on strengthening H&S management systems. As part of our capacity building effort, an initial assessment of existing management system will be made, after which H&M CoC teams will continually follow up and offer support on the ongoing remediation work.

Audit, March 25, 2009: No fire extinguishers were found to be blocked during this audit.

Follow-up visit October 21, 2008: Factory moved the 4 fire extinguishers to their proper place and arranged for the line supervisor to monitor the free access of all the fire prevention equipment.
Health and Safety: 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)

Noncompliance

Explanation: In accordance with Safety Manufacturing Law article 29, The design, manufacture, installation, application, inspection, maintenance, repair of and safety facilities shall comply with the national or industrial standards. Manufacturing units shall maintain and inspect safety facilities regularly to ensure they are in good working condition. Maintenance and inspection records should be properly maintained and assigned to relevant staff. It was noted that safety belt guard not available for 1 sewing machine.

Plan Of Action: H&M requires factory to develop a system to ensure health and safety conditions in the factory are always in line with local law and our code of conduct and make sure they are clearly communicated to workers, for example, through a handbook. This should include a system to ensure that all workers are provided with a safe working environment without risks of health implications. The system should ensure that the machines are equipped with proper protection equipment and kept in good condition.

Deadline Date: 10/22/2008

Supplier CAP: The factory will install a safety belt guard immediately. The line supervisors will make sure the all machines operating in good condition.

Supplier CAP Date: 10/22/2008
**Action Taken:**
Follow-up visit October 21, 2008: All safety belt guards were available for all sewing machines.

**Plan Complete:***

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**Hours of Work: 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)

**Noncompliance**

**Explanation:** Attendance records and payroll records provided by factory were undependable and unverifiable; therefore, compliance status of 'minimum wage', 'overtime wage' and 'overtime hours' could not be verified. Based on randomly selected time records review, it was noted all workers worked 12 consecutive days without 1 rest day from July 28 to August 8, 2008, and 7 consecutive days without 1 rest day from August 10 -16, 2008. In other months, all workers entitled to at least 1 day of rest in a 7-day period. However, factory provided attendance and payroll records were undependable and unverifiable, so the audit team could not fully determine workers' actual overtime hours.

Supporting evidence/sources: Work Related Injury Records and production records (i.e., Metal Tools Using Records; Material Receiving and Issuing Records; Sample Testing Records) showed workers from cutting and sewing sections and warehouse worked on November 25, 2007; June 15, 2008; and August 9, 31, 2008 (Saturdays and Sundays). But, these Saturday and Sunday hours not indicated on workers' time attendance records; moreover, there is no information shown on payroll records to demonstrate these hours paid by factory. Corresponding workers interviewed to corroborate issue.
Plan Of Action: H&M is first and foremost interested in being shown true situation in factory and requires factories to always provide correct attendance records and salary lists. Providing incomplete or false documents is a violation of our basic requirement of transparency. Only after knowing real OT are we able engage in dialogue with factory to establish system to reduce OT in a sustainable manner. Long-term aim is to, through improved production planning and efficiency, steadily reduce OT hours in order to meet legal limit of OT hours per month. In short term, we require factory to ensure workers may have 1 day off per week and reduce number of OT hours on weekdays.

Deadline Date: 10/22/2008

Supplier CAP: According to verification, factory has proven that these discrepancies caused by recorder's mistake. We will inform responsible managers that all records must be treated carefully and make sure records are consistent with attendance. We promise that the document the auditor is shown is true.

Supplier CAP Date: 10/22/2008

Action Taken: July 2009: H&M believes that only long-term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, initial audit will be followed by trainings to our suppliers and factories on how to establish reliable and transparent attendance records in garment factories. Part of trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening relevant management system. Shortly after trainings, H&M CoC team will visit factories to provide support and feedback, during which we will, together with supplier and factory, discuss how implementation efforts are progressing. This phase will be followed by second audit, during which we will assess factory's performance.

Audit, March 5, 2009: During this audit we reviewed attendance system and wage rolls. It was found that factory still has no transparent or reliable set of electronic attendance records. Handwritten attendance records as well as wage rolls were reviewed and found to be verifiable and transparent.

Follow-up visit October 21, 2008: During this audit it was noted that workers worked OT at night from Monday to Friday and also on Saturday and Sunday. Total OT work hours from August 21 to September 20, 2008 exceeded legal limit. Factory was using handwritten time records to record work hours, including OT. These handwritten records can be matched with production and distribution records. Therefore, OT compensation was not sufficient for more than 50% of workers.
Plan Complete:

Plan Complete

Date:

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**Hours of Work: Time Recording System**

HOW.6 Time worked by all workers, regardless of compensation system, shall be fully documented by time cards or other accurate and reliable recording systems such as electronic swipe cards. Employers are prohibited from maintaining multiple time-keeping systems and/or false records for any fraudulent reason, such as to falsely demonstrate working hours. Time records maintained shall be authentic and accurate. (P)

**Noncompliance**

**Explanation:** Factory provided attendance records and payroll records were undependable and unverifiable; therefore, the compliance status of 'minimum wage', 'overtime wage' and 'overtime hours' could not be verified.

Supporting evidence/sources: Work Related Injury Records and production records (i.e., Metal Tools Using Records; Material Receiving and Issuing Records; Sample Testing Records) showed workers from cutting and sewing sections and warehouse worked on November 25, 2007; June 15, 2008; and August 9, 31, 2008 (Saturdays and Sundays). But, these Saturday and Sunday hours not indicated on workers' time attendance records; moreover, there is no information shown on payroll records to demonstrate these hours paid by factory. Corresponding workers interviewed to corroborate issue.

**Plan Of Action:** H&M is first and foremost interested in being shown true situation in factory and requires factories to always provide correct attendance records and salary lists. Providing incomplete or false documents is a violation of our basic requirement of transparency. Only after knowing real OT are we able engage in dialogue with factory to establish a system to reduce OT in a sustainable manner. Long-term aim is to, through improved production planning and efficiency, steadily reduce OT hours in order to meet legal limit of OT hours per month. In short term, we require factory to ensure workers have 1 day off per week and reduce the number of OT hours on the weekdays.
Supplier CAP: According to verification, factory has proven that these discrepancies were caused by the recorder's mistake. We will inform the responsible managers that all records must be treated carefully and make sure the records are consistent with attendance. We promise that the document the auditor is being shown is correct.

Supplier CAP Date: 10/22/2008

Action Taken: July 2009: H&M believes that only long-term commitment to root cause remediation can bring about sustainable solutions to issues found in factories producing our garments. Therefore, we have recently launched a capacity building program, which will supplement our regular audits. As part of this program, an initial audit will be followed by trainings to our suppliers and factories on how to establish reliable and transparent attendance records in garment factories. Part of the trainings will also deal with how to write clear action plans, which will include how to address the underlying root cause by strengthening the relevant management system. Shortly after these trainings, an H&M CoC team will visit factories to provide support and feedback, during which we will, together with supplier and factory, discuss how their implementation efforts are progressing. This phase will be followed by a second audit, during which we will assess the factory's performance.

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Plan Complete: 

Plan Complete Date: