H&M Comment (August 2011): This factory is being phased out with end date in September. For an extended period, the supplier has not fulfilled H&M’s expectations in areas of social compliance and product quality. Despite repeated communication of need for improvement, as well as technical support from H&M’s side, the supplier has not taken sufficient action to remedy the situation. As a result, orders have been gradually decreased and eventually stopped. Considering this, no further follow up will be conducted.
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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: 1. Factory did not provide paid annual leave, sick leave or statutory holidays to workers.

2. The resigned workers were not settled with the last wage payment on the last working day.

Law Reference: Article 45,51,59 of PRC Labor Law

3. As per social insurance contribution record of August 2009, the factory had covered 488 employees under the accidental and 80 employees for medical, retirement, social insurance, maternity and unemployment social insurance. However, factory had obtained the waiver from the local bureau.

Law Reference: Article 73 of the Labor Law of the People’s Republic of China

Plan Of Action: H&M requires all factories to pay workers guaranteed fair and legal wages. Workers should be ensured minimum wages for normal working hours, be guaranteed the right to rest on statutory holidays, and receive legal compensation when working on those holidays. We have requested the factory provide us with a remediation plan on how to set up a system which guarantees the workers these rights. H&M always requires that workers participating in the production of our garments shall be covered by complete industrial injury insurance. We have contacted the factory and communicated this requirement. Furthermore, we have requested a step by step plan for how the factory will gradually work towards all workers being covered by social insurance. We plan to visit the factory early this year to follow up on the factory’s implementation of their corrective action plan.

Deadline Date: 01/01/2011

Supplier CAP: We will gradually introduce compensation for overtime work on legal holidays. In 2010, we will pay 1.5 times daily rate and 2 times in 2011 to workers who work on legal holidays. Wages of workers who resign will be calculated on their last day of work. We will gradually increase number of workers who are covered by social security. From November 2009 to May 2010, the percentage of workers covered will reach 15%; by June 2010, the percentage will reach 20%.
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: Local minimum wage was RMB 620 per month, effective since January 1, 2008. As per the payment records provided, it was noted that some workers were paid below the legal minimum wage, and some workers were paid with insufficient overtime compensation.

Law Reference: Article 48 PRC Labor Law

Plan Of Action: H&M always requires factories producing for us to ensure their workers’ legal payments. 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 1 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: 05/01/2010
Supplier CAP: By May 2010, we will guarantee minimum salary reaches RMB 620 (local minimum wage) for workers with full attendance. From June 2010, we will guarantee that per hour, salaries reach minimum wage.

Supplier CAP Date: 05/01/2010
Action Taken:
Plan Complete: No

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: Insufficient overtime compensation premium for night overtime work and rest day overtime work.

Law Reference: Article 44 of the Labor Law of the People’s Republic of China

Plan Of Action: H&M always requires factories producing for us to ensure their workers legal payments. 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 1 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: 05/01/2010

Supplier CAP: Factory will pay from:

October 2009 to April 2010: RMB 1/hr for evening OT; RMB 1.5/hr for weekend OT.

May to August 2010: RMB 1.5/hr for evening OT; RMB 2/hr for weekend OT.

September to December 2010: RMB 1.5/hr for evening OT; RMB 3/hr for weekend OT.

January 2011: RMB 1.78/hour evening for OT; RMB 3.56/hr for weekend OT.

May 2011: Salary and wage according to legal requirements.

Supplier CAP Date: 05/01/2010

Action Taken:

Plan Complete: No

Plan Complete Date:
**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 (FOA); however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union - the All China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of FOA, 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. However, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms. The Amended Trade Union Act of Oct. 2001 stipulates 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. Trade unions also have an enhanced role in dispute resolution. In Dec. 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:** During our audits and discussions with factory, we primarily encouraged management to develop and deepen factory’s own confidential grievance system. We support the factory in building a dialogue system within the factory in order to have a forum for workers to communicate grievances to management. During our audits, we regularly check the function of these systems.

**Deadline Date:** 08/15/2010

**Supplier CAP:** Set up dialogue mechanism between workers and management, and keep a written record. We will document dialogue content, implement and give feedback regularly by personnel office.

**Supplier CAP Date:** 08/15/2010
**Harassment or Abuse: Discipline/Progressive Discipline**

H&A.2 Employers shall have a written system of progressive discipline (e.g., a system of maintaining discipline through the application of escalating disciplinary action moving, for instance, from verbal warnings to written warnings to suspension and finally to termination). Any exceptions to this system (e.g., immediate termination for gross misconduct, such as theft or assault) shall also be in writing and clearly communicated to workers. (P)

**Noncompliance**

**Explanation:** No appeal system for workers who received disciplinary actions by factory. Factory did not have the policy for termination/retrenchment.

**Plan Of Action:**

H&M always requires that factories producing for us should work towards establishing a clear and well communicated system of progressive discipline, including mechanisms for appeal. During a recent audit we discovered several weaknesses in the factory’s disciplinary system; they were communicated to the factory, which later submitted a corrective action plan for how to improve this system.

**Deadline Date:** 08/15/2010

**Supplier CAP:**

We will improve the factory rules and regulations. The person responsible should fully understand managements’ policy, and keep studying. We will give more training and promulgate related policies to the workers. All of these policies will be posted in workshop. We will coach management regularly, and keep written record and feedback.

**Supplier CAP Date:** 08/15/2010
Harassment or Abuse: Discipline/Monetary Fines and Penalties

H&A.8 Employers shall not use monetary fines and penalties as a means to maintain labor discipline, including for poor performance or for violating company rules, regulations, and policies. (S)

Noncompliance

Explanation: The factory was using monetary fines to discipline workers.

Law reference: Article 15 of Provisional Regulations for the Payment of Wages

Plan Of Action: H&M always encourages factories producing for us to use enticements and rewards rather than monetary deductions. In cases where monetary deductions exist, we always require the factory to establish a system of documented progressive discipline. This should be clearly communicated to workers as well as all levels of management. This system should guarantee that any deductions are fair and legal.

Deadline Date: 03/11/2010

Supplier CAP: We will improve the factory’s regulations, and give a warning through sending a warning letter to those workers breaking or offending regulations.

Supplier CAP Date: 03/11/2010
Non-Discrimination: Recruitment and Employment Practices (Job Advertisements, Job Descriptions, Evaluation Policies)

D.3 Recruitment and employment policies and practices, including job advertisements, job descriptions, and performance/job evaluation policies and practices shall be free from any type of discriminatory bias. (S)

Noncompliance

Explanation: Age and sex restrictions were found in the factory hiring advertisement.

Plan Of Action: H&M does not accept any form of discrimination. We will require the factory to stop this immediately. During a recent audit at this factory we made an assessment of their recruitment system. Several weaknesses in this system were found, and we asked the factory to submit an action plan on how to strengthen the system, while communicating and implementing their own internal policy of non-discrimination.

Deadline Date: 10/30/2009

Supplier CAP: We will regulate our recruitment system, and cancel the age and gender restrictions. This will be supervised by our human resources department.

Supplier CAP Date: 10/30/2009

Action Taken: 

Plan Complete: No
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: Fire extinguishers were blocked by materials (such as at the location on the 2nd floor of production building.)


Plan Of Action: H&M requires the factory to develop policies and systems to ensure health and safety conditions in the factory are always in line with local law and our code of conduct and to make sure they are clearly communicated to workers, i.e., through a handbook. This should include a system to ensure that a safe working environment, without risks for health implications, is provided for all workers at all times.

Deadline Date: 08/01/2010

Supplier CAP: We will educate the workers about the routines to keep fire extinguishers clean and unblocked. Each responsible person will inspect regularly, and our personnel department will check randomly.

Supplier CAP Date: 08/01/2010

Action Taken:
Health and Safety: 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)

Noncompliance

Explanation: Workers did not wear protective masks while handling the glues and chemicals.

Law Reference: Article 37 of Safety Manufacturing Law

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

Deadline Date: 08/01/2010

Supplier CAP: We will arrange regular trainings for staff on how to safely and properly use glue, and on how to keep the training records. Active carbon face masks will be given to workers handling glue; ask them to wear masks when working. This will be inspected randomly by director.

Supplier CAP Date: 08/01/2010

Action Taken:

Plan Complete: No
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: Some of the sewing machines were not equipped with pulley guards.

Law Reference: Article 32 of Factory Safety and Health Rules

Plan Of Action: H&M requires the factory to develop policies and systems to ensure health and safety conditions in the factory are always in line with local law and our code of conduct and to make sure they are clearly communicated to workers, i.e., through a handbook. This should include a system to ensure that a safe working environment, without risks for health implications, is provided for all workers at all times. During our visits at this factory we regularly assess the factory’s internal health and safety systems, and provide support in order to strengthen them.

Deadline Date: 08/01/2010

Supplier CAP: We will give more training to responsible staff on how to better manage and supervise health and safety. We will make out specific routines, which will include how to thoroughly ensure environmental health, including areas near and outside the factory. Regularly check and keep proper records.

Supplier CAP Date: 08/01/2010

Action Taken:
Health and Safety: Bodily Strain
H&S.20 Workstations, including seating and standing arrangements and reach required to obtain tools, shall be designed and set-up in such a manner as to minimize bodily strains. Employers shall train workers in proper lifting techniques and items such as belts shall be provided. (S)

Noncompliance

Explanation: No ergonomics program or system was available in the facility. It is advised that proper sitting facilities for sewers and other ergonomic respects, such as floor mats or sitting areas, are to be provided to the workers standing long hours.

Plan Of Action: H&M requires the factory to develop policies and systems to ensure health and safety conditions in the factory are always in line with local law and our code of conduct and to make sure they are clearly communicated to workers, i.e., through a handbook. This should include a system to ensure that a safe working environment, without risks for health implications, is provided for all workers.

Deadline Date: 12/30/2009

Supplier CAP: We will try and set up ergonomic facilities and equip chairs with backrests, and provide floor mats to workers standing long hours.

Supplier CAP Date: 12/30/2009

Action Taken:

Plan Complete: No
**Plan Complete**

**Date:**

---

**Hours of Work: 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)

**Noncompliance**

**Explanation:** Workers were found working in excess of 60 hours a week (some workers had worked 77 hours a week in August 2009).

Law Reference: Article 38 & 41, of the Labor Law of the People’s Republic of China

**Plan Of Action:** H&M requires all factories that produce for us to follow the law in every aspect, which includes working hours and payments. We have required factory to submit to us a corrective action plan describing how they will gradually reduce OT hours. The long-term aim is through improved production planning and efficiency, steadily reducing overtime hours in order to meet the legal limit of overtime hours per month. In the short term, we require the factory to ensure that workers may have 1 day off per week and reduce the number of overtime hours on weekdays.

**Deadline Date:** 10/30/2010

**Supplier CAP:** To decrease overtime work gradually, we will:

1. Give more training and improve working efficiency;
2. Improve welfare and recruit more skilled workers;
3. Reasonably organize production planning and scientifically arrange procedures.

We expect overtime work doesn’t exceed 150 hours per month in peak season and 100 hours in low season.

**Supplier CAP Date:** 10/30/2010
**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:** Workers were found working consecutively without being provided with the 7th rest day. As per time records, it was noted that workers were required to conduct rest day overtime and therefore, some of them were not guaranteed with the 7th day rest as a general practice. For instance, sewers worked consecutively 14 days from April 5-18; 25 days from July 1-25, 2009 and 41 days from July 27 - September 5, 2009. Based on factory management information, factory conducted excessive work to cover the urgent orders and shortage of work force.

**Law Reference:** Article 38 PRC Labor Law

**Plan Of Action:** H&M requires all factories that produce for us to follow the law in every aspect, which includes working hours and payments. We have required the factory to submit to us a corrective action plan describing how they will gradually reduce OT hours. The long-term aim is through improved production planning and efficiency, steadily reducing overtime hours in order to meet the legal limit of overtime hours per month. In the short term, we require the factory to ensure that workers may have 1 day off per week and to reduce the number of overtime hours on weekdays.

**Deadline Date:** 10/30/2010
Supplier CAP:

To decrease overtime work gradually, we will:

1. Give more training and improve working efficiency;
2. Improve welfare and recruit more skilled workers;
3. Reasonably organize production planning and scientifically arrange procedures.

We expect overtime work doesn’t exceed 150 hours per month in peak season and 100 hours in low season.

Supplier CAP Date: 10/30/2010
Action Taken:

Plan Complete: No

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: A few time records were found not fully documented by time cards. The factory was using manual attendance records and the paper time card system to record worker attendance simultaneously. The manual attendance records were used for calculating workers wage payments while time card records used as a check reference if there was any discrepancy. Since October 2009, factory has changed its time records system into a computerized swipe card system, but its manual records system was still maintained for cross checking when calculating workers’ attendance and wages.

Law Reference: Article 36 & 38 PRC Labor Law
| **Plan Of Action:** | We require the factory to keep the attendance records for 1 year, available for review at any time. The factory must also ensure that all workers punch attendance records. |
| **Deadline Date:** | 12/15/2009 |
| **Supplier CAP:** | Electronic attendance machine was equipped in October 2009 and we have started to use it. We will award RMB 20 to workers who punch their cards each required time. |
| **Supplier CAP Date:** | 12/15/2009 |
| **Action Taken:** | |
| **Plan Complete:** | No |
| **Plan Complete Date:** | |