



FAIR LABOR
ASSOCIATION®

INDEPENDENT EXTERNAL ASSESSMENT REPORT



COMPANY: **KTC Limited**
COUNTRY: **China**
ASSESSMENT DATE: **03/11/14**
MONITOR: **FLA Assessor Team (China)**
PRODUCTS: **Apparel**
PROCESSES: **Full [= full package]**
NUMBER OF WORKERS: **2556**
NUMBER OF WORKERS INTERVIEWED:
ASSESSMENT NUMBER: **AA0000000364**

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Improving Workers' Lives Worldwide

Understanding this Assessment Report

This is a report of a workplace assessment conducted by Fair Labor Association assessors following FLA's Sustainable Compliance methodology (SCI), which evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment life cycle.

This report identifies violations and risks of noncompliance with the Fair Labor Association Workplace Code of Conduct in its assessment of the employment functions, and includes a description of the root causes of violations, recommendations for sustainable and immediate improvement, and the corrective action plan for each risk or violation as submitted by the company. This document is not a static report; rather, it reflects the most recent progress updates on remediation in the "Progress Update" section for each finding.

Glossary

De minimis: A de minimis factory is a factory (1) with which the Company contracts for production for six months or less in any 24-month period; or (2) in which the Company accounts for 10% or less of the annual production of such facility. The FLA Charter states that in no event shall de minimis facilities constitute more than 15% of the total of all facilities of a Company, and the list of facilities designated as de minimis by a Company is subject to the approval of the FLA. Please note that collegiate-producing factories cannot count as de minimis.

Facility performance: how a facility rates in terms of a particular employment or management function, with 100% being the best possible score.

Fair labor standards: the minimum requirement for how workers should be treated in a workplace, as outlined in the [FLA Workplace Code of Conduct](#).

Employment life cycle: all aspects of an employee's relationship with the employer, from date of hire to termination or end of employment.

Code violation: failure to meet standards outlined in the FLA Workplace Code of Conduct in the workplace implementation of employment or management functions.

Employment Functions: The different components of the relationship between management and employees in a factory. An employment function is a process regulating an aspect of the employment relationship, such as the recruitment of workers. All employment functions together constitute the employment relationship between an employer and an employee.

1. Recruitment, Hiring & Personnel Development (e.g., performance reviews)
2. Compensation (e.g., wages, health care)
3. Hours of Work (e.g., overtime, documentation of working hours)
4. Industrial Relations (e.g., collective bargaining agreements)
5. Grievance System (e.g., worker communication with management)
6. Workplace Conduct & Discipline (e.g., discrimination, harassment)
7. Termination & Worker Retrenchment (e.g., downsizing, resignation)
8. Health & Safety (e.g., exposure to chemicals)
9. Environmental Protection (e.g., energy saving)

Management functions: violations or risks related to an employment function could be caused by the absence – or a problem in the operation – of any one of the management functions or in more than one.

1. Policy
2. Procedure
3. Responsibility & Accountability
4. Review Process
5. Training
6. Implementation
7. Communication & Worker Involvement
8. Support & Resources (only for the in-depth level)

Finding: indicators of potential gaps between desired and actual performance of the workplace on different employment functions.

Finding type

- **Immediate action required:** discoveries or findings at the workplace that need immediate action because they not only constitute an imminent danger, risk the workers' basic rights, threaten their safety and well-being or pose a clear hazard to

the environment, but also are clear non-compliances with the FLA Workplace Code of Conduct and local laws. Examples include a finding by the assessor that crucial fire safety elements are not in place or that there is underpayment of wages and/or worker entitlements or that there is direct discharge of waste water, etc.

- *Sustainable improvement required*: findings that require sustainable and systematic actions. The factory will be asked to tackle the underlying root causes and to do so in a long-term and systematic manner to bridge the gap between actual and desired performance. Examples include a finding by the assessor that there is lack of termination policies and procedures in the workplace, lack of grievance system, etc.
- *Notable feature*: indicates a remarkable feature or best practice at a workplace. Examples might include workers' wages and benefits that are significantly above the industry average, or community benefits such as free daycare.

Local law or Code Requirement: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

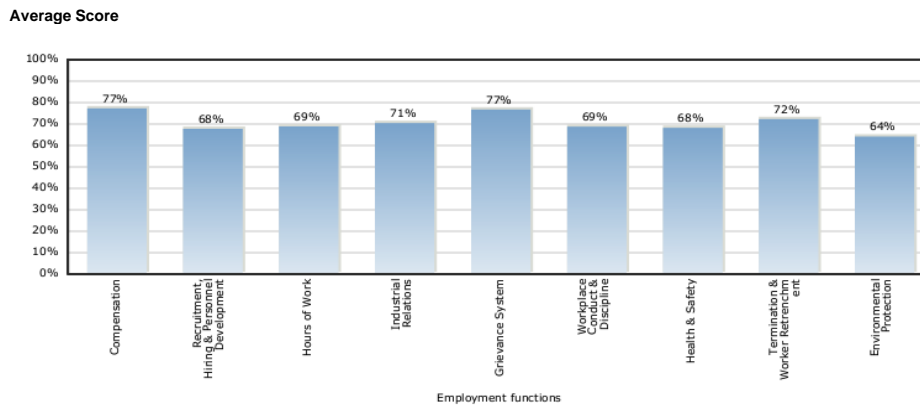
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that the worker did not use the hearing protection equipment because such equipment was not provided by management. However, upon a more thorough evaluation of available information, the assessor might find that the worker was indeed supplied with hearing protection equipment and with written information about the importance of wearing hearing protection, but was not trained on how to use the equipment and that use of the equipment was not enforced in a consistent manner by management.

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

Factory Profile

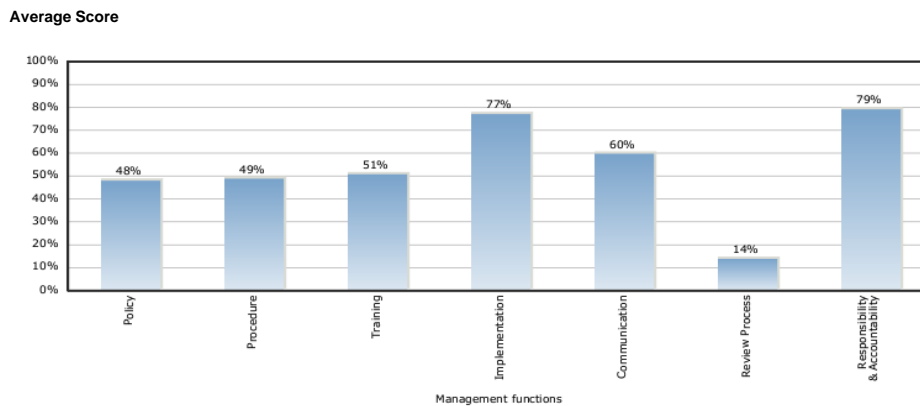
Score by Employment Function

Scores indicate a factory's performance related to a specific employment function based on an FLA assessment. A score of 100 percent indicates flawless operation of an employment function. A score of less than 100 percent indicates need for improvement.



Score by Management Function

Scores indicate a factory's performance related to a specific management function based on an assessment conducted for FLA by independent, accredited assessors. A score of 100 percent indicates flawless operation of a management function. A score of less than 100 percent indicates need for improvement.



Score Summary

Scores indicate the strength of management functions as they relate to different elements of the employment relationship (employment functions). For example (reading left to right), a score of 100 percent in the cell on the top left corner would indicate the existence of appropriate policies related to recruitment, hiring and personnel development.

Management Functions	Recruitment, Hiring & Personnel Development	Compensation	Hours of Work	Industrial Relations	Grievance System	Workplace Conduct & Discipline	Termination & Worker Retrenchment	Health & Safety	Environmental Protection
Policy	48.45%	66.67%	46.67%	50%	60%	42.86%	48.08%	45%	77.78%
Procedure	28.3%	44.33%	40.63%	0%	50%	56.25%	75%	48.05%	50%
Responsibility & Accountability	91.75%	91.75%	77.83%	89%	91.75%	91.75%	91.75%	89%	89%
Review Process	0%	50%	50%	0%	0%	0%	0%	0%	16.67%
Training	39.29%	66.67%	58.33%	30%	68.75%	35.71%	43.75%	63.58%	37.5%
Implementation	83.21%	85.77%	81.82%	70%	95.45%	93.33%	87.5%	77.45%	46.76%
Communication	75%	87.5%	55%	0%	75%	25%	100%	37.5%	50%

Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

FLA Code Element	Number of Violations	Violations
Compensation	2	Workers Awareness and Understanding of Compensation Training and Probation Wage
Employment Relationship	15	General/Human Resource Management Systems Terms and Conditions/Employment Terms Terms and Conditions/New Employee Orientation Terms and Conditions/Communication Terms and Conditions/Supervisor Training Administration of Compensation/Termination Payouts Administration of Fringe Benefits/Holidays, Leave, Legal Social Benefits and Bonuses Administration of Hours/Time Recording System Administration of Hours/Production and Incentive Schemes Industrial Relations Work Rules and Discipline Skills Development/Management of Performance Reviews Skills Development/Promotion, Demotion and Job Reassignment Health, Safety, and Environmental Management System/Policies and Procedures Termination and Retrenchment/General Policies and Procedures
Freedom of Association and Collective Bargaining	3	Employer Interference Employer Interference/Constitution, Elections, Administration, Activities and Programs Right to Freely Associate
Harassment and Abuse	1	Discipline/Monetary Fines and Penalties
Hours of Work	3	General Compliance Hours of Work Annual Leave Rest Day
Health, Safety and Environment	9	General Compliance Health, Safety, and Environment Material Safety Data Sheets/Workers Access and Awareness Proper Use of Machinery Ergonomics Document Maintenance/Workers Accessibility and Awareness Notification and Record Maintenance Permits and Certificates Evacuation Requirements and Procedure Chemical Management and Training
Non-Discrimination	1	Protection and Accommodation of Pregnant Workers and New Mothers

Findings and Action Plans

ENVIRONMENTAL PROTECTION**FINDING TYPE: Sustainable Improvement Required****Finding Explanation**

1. The factory did not maintain either the Environmental Impact Appraisal (EIA) Report or the Environmental Impact Registration Form. Additionally, the permits for air emission and solid waste were not kept in place as per legal requirements.
2. The factory had not registered and reported their discharged atmospheric pollutants to the local Environmental Protection Bureau. As a result, the quality of air emissions discharged in some workshops (laser cutting, chemical detergent spraying in the finishing department, and heat seal backing) was not monitored.
3. There was not a weatherproof segregation facility installed for the hazardous waste storage area (waste chemical containers), to prevent them from unauthorized access or adverse weather conditions.
4. Hazardous waste (waste chemical containers, toner cartridges, waste fluorescent lamps, oily rags, etc.) was not disposed of by an authorized facility.
5. There was no procedure for Environmental Protection, especially regarding workers' rights and duties; the responsibilities of designated personnel; and procedures that enable workers to raise and report environmental concerns/issues.

Local Law or Code Requirement

Law of Environmental Impact Appraisal, PRC (2003), Article 16; Law on Prevention and Control of Atmospheric Pollution (2000), Articles 12, 13, and 15; Law on Prevention and Control of Environmental Pollution by Solid Wastes (2004), Article 59; Standard for Pollution Control on Hazardous Waste Storage GB18597-2001, Article 8; FLA Workplace Code (Health, Safety, and Environment Benchmarks HSE.1 and HSE.4; Employment Relationship Benchmark ER.31.2)

Root Causes

1. The current factory owner purchased this facility a few years ago; the original official documents were not transferred at the time of purchase.
2. Factory management was not active in communicating its production status to the local environmental authority.
3. Lack of sufficient staff resources and accountability to manage the factory's environmental affairs.

COMPANY ACTION PLANS

1. Find external service providers that offer the respective service and assign one to conduct the necessary tests and reporting.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : * First offer has been send to FLA to approve the external providers procedure meets FLA's requirements. We are also expecting to receive a bid from another provider for making a final decision. * Details regarding the scope and content of the testings are being discussed with the service provider.

2. Weatherproof shelter will be constructed according to the requirements of the law.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : Redesigned an existing construction to fit this purpose for the present requirements and for establishing the relevant procedures. We will monitor if there is a need for extension or functional adjustments after having the procedures in place for several months. There are secondary containers to store containers of adhesives, cleaning detergents, etc. a container for cloth and rags that have been in contact with oils, areas for printer toners, fluorescent lamps, etc.. Bags of sand are provided to easily bind and dispose potential leakages and a concrete slope of few centimeters

in height in front of the entrance was build so the whole room itself serves as an emergency container as well.

- Will find information and authorized providers for hazardous waste disposal in our area.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : * For our region there is no certified collector for hazardous waste available. We are checking in the surrounding areas but so far have had difficulty finding an adequate provider as either the materials they accept do not fit our needs or the minimum annual amount the respective providers require for collection exceeds the amount of hazardous waste we accumulate.

- As we make limited use of chemicals and hazardous products or production processes developing a detailed written procedure is presently not a top priority for us; our first step in this regard will be establishing the procedures which are directly related to workers and daily work. After successfully establishing these procedures, the point for a general policy might be reconsidered.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : see details above

FINDING NO.2

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

- The lighting level in the office work area in the fabric and finished goods warehouse does not meet national standards; it ranged from 125 – 190 lux, when it should be 300 lux as per legal requirements.
- Most chairs provided to workers were not ergonomically designed with backrests and cushions to minimize bodily strain.
- Based on worker interviews and observation, workers who need to lift heavy fabrics, especially those working in the warehouse, were not trained on proper lifting techniques.

Local Law or Code Requirement

Standard for Lighting Design of Buildings GB50034-2004, Article 5.2.2; FLA Workplace Code (Health, Safety, and Environment Benchmarks HSE.1, HSE.13, and HSE.17)

Root Causes

- The factory did not conduct a health and safety (H&S) risk assessment, which included lighting level and ergonomic concerns.
- Management lacks awareness of the benefits of ergonomic improvements, such as increasing productivity and attendance levels, while reducing the risk of work accidents and Musculoskeletal Disorder (MSDs).
- Implementing ergonomic improvements implies additional costs for management.

COMPANY ACTION PLANS

- We are in process of finding ergonomic chairs according to our needs. These chairs will first be used for a smaller group of workers for several weeks to be followed up with a questionnaire for feedback from the respective workers about their experience with the specific model. We plan to embed this approach in the study and project we are presently starting in cooperation with the University of Mannheim.

Action plan status: Planned

Planned completion date: 01/01/15

2. Factory will install additional lamps and desk lamps at working places with insufficient light levels.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : Additional lamps installed in all dark working places. We additionally plan to include relevant testing in the Workers Health Risk Assessment carried out by third party to double check if lux levels are in compliance and do not pose risk for employees' eyesight in the whole factory.

3. After gathering sufficient information on proper lifting techniques we will create standardized instructional material and procedure for respective workers throughout our factory to raise awareness and knowledge on this topic.

Action plan status: Planned

Planned completion date: 01/01/15

FINDING NO.3

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There were no standard operating procedures (SOPs) or safety instructions posted at many workstations, such as the automatic cutting area, laser cutting, ironing, seal tape, etc. The logs regarding medical supply at these workplaces indicated that some injuries have occurred.
2. The sharp edge of seal tape machines were not guarded; according to worker interviews, some injuries have occurred as a result.
3. Based on worker interview and observation, some cleaners were not provided personal protection equipment (PPE) (gloves) to protect their hands and no workers in the gluing workshop were provided PPE (masks) to avoid inhaling fumes from heated glue.
4. The factory had no system to track all work-related injuries or accident/incident records (e.g., minor and near-miss cases). For example, workers were only required to fill out logs regarding which medical supplies they used, but not the types and reasons of injuries.
5. The factory lacks a procedure/mechanism that: a) enables workers to raise H&S concerns and b) has the steps to be taken to protect workers if there is an accidental chemical spill.

Local Law or Code Requirement

Labor Law of China, Article 54; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1, HSE.3.2, HSE.5.2, HSE.14.1, HSE.14.3, and HSE.31.2.4)

Root Causes

1. There were no dedicated health, safety and environment (HSE) staff; there were 3 CSR staff partially involved in HSE affairs, who are also in charge of payroll, working hours records, and accounting.
2. There was no H&S risk assessment in place and the internal monitoring tool is incomplete.
3. The factory was under the impression that their machines posed a low safety risk and since the operators had been trained, the factory did not see the need to post SOPs or safety instructions near machinery.
4. The factory is used to managing the H&S affairs in a top-down manner without input from workers.

Recommendations for Immediate Action

1. Provide all cleaners with PPE (gloves) and all workers in the gluing workshop () with masks.
2. Guard the sharp edge of seal tape machines and properly maintain the machines to avoid injury risks.
3. Post SOP and safety instructions near all machinery; they should be available in all languages spoken by workers.

COMPANY ACTION PLANS

1. Standard Operating Procedures for most machines are being created and placed on the respective machines and workplaces.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : All working places which use special machines have SOPs posted. This will be reviewed and verified by external party during next factory audit.

2. Sharp edges of the machines will be covered with insulation pads to reduce the risk of scratches being inflicted on workers' arms or hands when operating the machines.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : After the issue was raised by the FLA assessors, we had the edges of some machines covered with insulation padding which, after a day of feedback, was added to the other machines with rectangular edges. As the first initial covers we used have not been proven very durable, we are presently testing different foam material for more longlasting protection.

3. The existing accident and injury history (presently kept in handwritten form by our factory nurse) will be reviewed. Following the review, implementation of a standardized, holistic list for better tracking on a long-term basis will be considered.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : Implemented use of a more comprehensive accident record which allows for better review and analysis of the accidents in the factory to find out about potential common risks.

4. Although these channels are not specifically tailored for questions or problems on health and safety concerns, workers can and do raise concerns regarding H&S through existing communication channels (e.g. to supervisors, via the suggestion box and via Weixin channel). Recent examples would be workers' complaints about high noise level due to a flawed sewing machine, request for face masks due to dust development or request for installation of additional lighting.

Action plan status: Completed

Planned completion date: 01/01/15

Progress update: 10/01/14 : As the Weixin channel is still a work in progress and thus under establishment and development, we presently do not plan to establish new communication channels tailored for specific topics. However, as we are planning development of an on-boarding and orientation procedure for workers, the use of the existing communication channels, including the direct and for most problems faster communication to superiors, will also be explained and promoted in this process to increase communication in general.

Completion date: 05/01/14

5. Presently the workstations working with chemicals are equipped with fresh water supply to wash eyes in case of contact with chemicals. In addition to this basic measure, we plan to have a review to increase knowledge and preparedness on potential risks for the workers. The emergency procedures for accidental spill and other common accidents are planned to be included in the working procedures for the respective working places after preredquired systems are set up.

Action plan status: Planned

Planned completion date: 01/01/15

6. Cleaning staff have been reminded on the procedure to request new PPE from supervisor as needed. Concerning general use of PPE and use of adequate PPE, workplaces will be assessed by internal staff and during the related testings by external service providers to identify and remediate shortfalls. In relevant workplaces, the supervisors and workers will be educated once again on the importance of using PPE to raise workers willingness to make use of PPE during daily work. We are planning to include these procedures and related worker education in the general overhaul and implementation of updated chemical management procedures and occupational safety procedures.

Action plan status: Planned

Planned completion date: 01/01/15

FINDING NO.4

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Testing for a chemical hazardous agent was not included in the factory's annual evaluation of occupational exposure to hazardous agents in the workplace, even though the production process did involve the use of the chemical agent. As a result, there was no proof as to whether legal limits were met.
2. The following shortcomings were noted in the factory's chemical management system: a) factory did not track all chemicals being used; for example, there was no material safety data sheet (MSDS) available for chemicals (3M Super-77 adhesives, lubrication oil, and VV spraying detergent) used by the embroidery and maintenance departments; b) chemicals were stored in an unsafe manner, as most chemicals had not been equipped with secondary containers in most maintenance workshops on each production floor; c) the chemical detergent for decontamination in the finishing department contains high levels of a hazardous substance; d) 6 workers handling the chemical detergent in the finishing department were not provided the appropriate PPE (masks) in accordance with the corresponding MSDS; and e) based on worker interviews and observation, workers were not provided training concerning hazards, risks, and the safe use of chemicals.
3. The factory did not provide any occupational health examinations for workers working with hazards (e.g., workers cleaning stains in the finishing department and embroidery workers exposed to high noise levels of 92db(A)). According to legal requirements, workers working with hazards should be provided pre-job, on-the-job, and pre-departure occupational health examinations at employer's cost.
4. The costs of health examinations for young workers are only reimbursed to young workers after 5 months of work in the factory, although this fee should be at employer's cost as per legal requirements.

Local Law or Code Requirement

Provisions on the Supervision and Administration of Occupational Health at Work Site, Articles 20 and 30; Law on the Prevention and Control of Occupational Diseases, Article 23; Regulations for the Special Protection of Under-Age Employees (1995), Article 10; and FLA Workplace Code (Health, Safety and Environment Benchmarks, HSE.1, HSE.2, HSE.7, HSE.9.2, and HSE.10; Child Labor Benchmark CL.4)

Root Causes

1. There is a lack of dedicated personnel in charge of H&S, especially for chemical management. Also, there were no resources allocated for training.
2. There was neither a well-established chemical management procedure nor a H&S risk assessment in place; thus, many risk factors were not identified.
3. Management tends to avoid the statutory costs of health checks for young workers with less than 5 months of work in favor of workers with longer tenures.

COMPANY ACTION PLANS

1. Research for missing MSDS for 3M Super-77 adhesive, lubricant oil of maintenance departments, VV spraying detergent.

Action plan status: Completed

Planned completion date: 01/01/15

Progress update: 10/01/14 : All MSDS are being kept in a centralized file now with a full copy available to the compliance staff. An incomplete MSDS that has not been filled in for the specific product has been updated.

Completion date: 10/24/14

2. Check for potential replacements and ensure availability of adequate personal protective equipment.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : Review of all MSDS for potential required updates on handling and usage of PPE in progress. Presently no update on possible non-hazardous replacement for chemical cleaning detergent.

3. Check which workers are exposed to hazardous working environment and provide regular health examinations for those workers. These health examinations will be specifically aiming at occupational health risks and carried out by the respective official bureau.

Action plan status: Planned

Planned completion date: 01/01/15

4. As we presently face retention problems, especially regarding young workers, we have to bear major costs for training and supporting or subsidizing new workers. The rule to reimburse the costs for the health examination after 5 months only will for now be continued to protect the company from an additional financial burden caused by job hoppers. If our present project, which also addresses young worker retention, shows some positive impact, we will be glad to reconsider carrying the costs a priori.

Action plan status: Planned

Planned completion date: 01/01/15

5. Assign an authorized external service provider to conduct the necessary testings.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : Received first quote from a service provider; checking content and possibility to add testing for points previously not included.

6. As, for example, lubricant oil was not considered a hazardous chemical product in the past audits, secondary containers for several workplaces like the maintenance rooms will be subsequently installed.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : We are presently checking for adequate secondary containers and the need for potential adjustments in the storage places.

7. Education and instruction on safe use of chemicals will be developed and established for relevant workplaces.

Action plan status: Planned

Planned completion date: 12/31/15

FINDING NO.5

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory set a probation period of 6 months, which is more than the maximum (3 month) that FLA allows.
2. In addition, there was a repeated probation term for workers returning for employment. According to applicable legal requirements, returning employees should not be subject to additional probation terms in the same workplace.
3. The factory does not have job descriptions for all positions.
4. There was no skill development policy or procedure to encourage ongoing training for workers with the goal of broadening their skills in order to advance in their careers; the procedures of performance review, promotion, demotion, and job reassignment were not developed, either.

Local Law or Code Requirement

Law of Employment Contract of PRC, Article 19; FLA Workplace Code (Compensation Benchmark C.3; Employment Relationship Benchmarks ER.1.1, ER.28, ER.29, and ER.30)

Root Causes

1. HR personnel are not familiar with: a) labor law requirements; b) FLA Workplace Code and Benchmarks.
2. Chinese labor law allows for a probationary period of up to 6 months for workers who have 3-year or indefinite employment contracts.
3. The factory finds it easier to orally communicate job descriptions to candidates on the factory premises.
4. Workers are typically promoted by supervisor recommendation. So far this approach, which lacks detailed criteria and process, has been considered more effective in practice by the factory management.

Recommendations for Immediate Action

1. Sign permanent employment contracts with workers who have completed the 3-month probation period.

COMPANY ACTION PLANS

1. As a probation time of six months is legal for contracts of at least 3 years or open-ended duration and the workers do not suffer any disadvantages regarding payment, working time, daily work, etc. during their probation time, we will, for the time being, continue to follow the legal requirements of the Chinese law. We are producing highly technical and challenging garments which demand high abilities and skill levels from the workers. For unskilled workers or those with only basic knowledge and training it requires far more than three months to learn and train the required skills; rendering reliable judgment if a particular worker can achieve these levels very difficult after only three months. Thus, we need the six months probation time to avoid early termination of workers who are unable to fully develop the high skill level within three months.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : see details above

2. Presently workers advance to lines and products which require more skill as they advance by skill improvement through on-the-job training and their daily work. The workers' progress is being evaluated by supervisors who may suggest them for promotion. In 2012 and 2013, we tried working with local schools to establish a well organized training program that is tailored for industrial garment makers, offering progressive, multiple stage vocational certificates, but could not find the required level of competency to continue this program. During our upcoming study and project we are planning to continue addressing this challenge and look for more suitable ways to establish tailored programs for training and skill promotion.

Action plan status: Planned

Planned completion date: 12/31/15

3. With the system we presently have in use it is not possible to track each individual employee's employment history which makes it impossible for us to keep a reliable database of who is a rejoining worker. For those workers only leaving the factory for a short time instead of taking an extended holiday, there will usually be no repeated probation time. For some workers who might be newly employed in a new position, it would be unreasonable to not grant a probation time to have the chance of testing and monitoring the level and development of the different skills required, especially as the probation time in our factory does not come with reductions or limitations of payment or other aspects. Establishing an easy to access history in our system is being discussed to comply with this requirement in future.

Action plan status: Planned

Planned completion date: 01/01/15

4. Due to our companies limited size and flat structure, the main workforce has clearly distinguished and defined jobs even without a job description. This point is presently not a priority for our corrective actions but might be considered at a later point in time.

Action plan status: Planned

Planned completion date: 01/01/15

FINDING NO.6

COMPENSATION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Most workers in the factory are paid on a piece-rate basis. If workers cannot reach the legal minimum wage by piece rate payment, the missing portion is subsidized by the factory. If the respective production managers decide that the discrepancy is due to worker's low productivity, around 450RMB is still deducted from workers' monthly take-home pay toward dormitory fee and canteen meal expenses. On average, about 5% of workers per month were affected by this practice.
2. Around 12% of workers were not covered by the national social insurance scheme.
3. Statutory leave, including paid annual leave, late-marriage leave, lactation leave, and prenatal health-check leave were not provided to workers.
4. Workers' payslips do not show working hours.

Local Law or Code Requirement

Social Insurance Law, Article 10; Paid Annual Leave Regulation (2007), Article 3; Implementation Measures of Employees' Paid Annual Leave (2008), Articles 4 and 5; Special Protection Regulation for Female Employees, Articles 6 and 9; Population and Family Planning Regulation of Guangdong Province, Article 35; FLA Workplace Code (Harassment or Abuse Benchmark H/A.2; Compensation Benchmark C.13.3; Hours of Work Benchmark HOW.11)

Root Causes

1. According to the factory management, the practice of wage deductions for meals and housing in the case of poor productivity is meant to motivate workers to increase their productivity.
2. Management lacks an understanding of FLA Workplace Code and Benchmarks.
3. The Chinese social insurance system is under development and, as a result, the process of insurance transfer across the country is still complicated. Workers are not provided adequate support and assurance from the local government or their employer about the transfer of their pension funds back to their hometowns.
4. Some employees consider the social insurance contribution to be a burdensome extra cost.
5. HR personnel lack training on statutory leave.

Recommendations for Immediate Action

1. Cease monetary penalties.
2. Provide all statutory leaves.

COMPANY ACTION PLANS

1. Due to present challenges with the number of workers that lack motivation and willingness to perform, the factory faces increased costs caused by low performers. As workers who are not reaching a certain productivity cause recognizable costs to the factory, those who do not even achieve the legal minimum wage and thus are subsidized the missing amount to meet the legal minimum wage cannot enjoy additional allowances like free meals at the canteen and rent-free dormitory. The amount for these two bonuses add up to a maximum of 450 RMB in one month if the workers lives in the dormitory and takes every meal at the canteen. From the group of workers not reaching the minimum wage, only those are charged for dormitory rent and meals who already are with the factory for a long enough time to have reached a skill level that should allow a sufficient output and only if the cause does not lie with the factory or production process (e.g. a new difficult product or insufficient workload). We consider nonpayment of bonus and additional benefits for underperforming workers as an acceptable part of a performance orientated payment system and can out of cost reasons and fairness reasons towards motivated and performing workers not afford to amend this rule.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : see details above

2. Since 2011 we have been able to convince almost 90 percent of our workforce to enroll with the national social insurance program. All newly recruited employees are required to enroll with the statutory insurance program upon hire. The 12 percent of workers not enrolled mainly consist of three groups: * One group already passed the age limit at which the insurance companies accept applications, rendering enrollment of these workers impossible due to the system itself. * The second group consists of new workers for which the enrollment process is not completed yet. This group always exists as the enrollment process takes some time and there is a continuous fluctuation in the workforce, bringing in new workers to enroll every week. * The third group consists of workers who after multiple instructions and advices still refuse to enroll for different reasons like lack of trust in the system or not being able to transfer the insurance money to their home province. However, as many of these workers have been working for the factory for several years or even decades, terminating their employment because of this problem would not be a reasonable or responsible step. Due to the rule of having all new employees enroll with the insurance, full coverage will be achieved gradually throughout the upcoming years.

Action plan status: Completed

Planned completion date: 01/01/15

Progress update: 10/01/14 : see details above

Completion date: 05/01/14

3. The system and procedures for granting statutory leave will be established as required by the law. We are presently not planning to change the format of the payslip; this point will be subject to future planning.

Action plan status: In Progress

Planned completion date: 12/01/15

Progress update: 10/01/14 : * Current practice is being reviewed * Creating drafts for processes and procedures to establish a well-working system for paid annual leave and other statutory leaves.

FINDING NO.7

HOURS OF WORK

FINDING TYPE: Immediate Action Required

Finding Explanation

1. From July to December 2013 (peak season), 40 – 50% of workers worked more than 60 hours per week.
2. There were 2 times in the past year (in September and October 2013) when workers were not provided 1 day off in every 7-day period.
3. During most of the year, workers' monthly overtime exceeded 36 hours. The highest amount of overtime recorded in a month was 90 hours. Daily overtime exceeded 3 hours during peak season, in breach of the legal limit.
4. Pregnant women who are more than 7 months pregnant have been found working overtime, which is in violation of the local law.

Local Law or Code Requirement

Labor Law of PRC, Article 41; Special Rules on the Labor Protections of Female Employees, Article 6; FLA Workplace Code (Employment Relationship Benchmark ER.24; Hours of Work Benchmarks HOW.1, HOW.2, and HOW.4)

Root Causes

1. The factory's preparation and skilled staffing levels were out of sync with production volumes, leading to excessive hours of work.
2. The clients' purchasing patterns (most orders are in small quantities with varied styles) make it difficult for the factory to forecast orders and do the production planning accordingly. In addition, delays in the delivery of materials, tight shipping deadlines, and last minute pattern changes contribute to excessive working hours.
3. The factory's production planning includes overtime and sets production targets that workers need to work beyond regular

(40) working hours.

4. Since workers' basic wages are low, most workers rely on overtime premiums to earn more income.
5. There is no mechanism for management to track the pregnancy of female employees; the factory management is usually unaware of a worker's pregnancy until the worker applies maternity leave.

Recommendations for Immediate Action

1. Ensure workers have at least 1 day-off in every 7-day period as consistent with FLA Workplace Code and Benchmarks and retroactively provide workers with owed rest days.
2. Cease the practice of assigning overtime work to female employees who are more than 7 months pregnant.

COMPANY ACTION PLANS

1. In the last two years KTC increased its efforts to discuss and address this kind of problems in cooperation with its customers. However, as the approach to mitigate and remediate these problems requires working against years of established common practices throughout multiple levels of the supply chain, progress and success are so far still very limited. Due to the structure and common operation in the textile industry and relevant supply chains, we are presently not able to completely guarantee avoidance of these problems solely on our own initiative, but are working towards cooperation on different levels to gradually establish the basis for sustainable and expansive remediation.

Pregnant workers are always able to not work any overtime without having their annual productivity bonus deducted. However, presently the company does not force pregnant workers to not work overtime as experience shows that some pregnant workers will resign and work for other employers if they are not allowed to work any overtime. We are presently discussing measures to comply with the regulation while still minimizing the number of workers resigning for not being allowed to work overtime.

Action plan status: Planned

Planned completion date: 12/31/15

FINDING NO.8

TERMINATION & WORKER RETRENCHMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Termination payout is not paid on the last workday.

Local Law or Code Requirement

Wage Payment Regulation of Guangdong Province, Article 13; FLA Workplace Code (Compensation Benchmarks C.1 and C.4)

Root Causes

1. The factory lacks understanding of government regulations on termination payout.
2. The factory considers it difficult to pay individual workers their termination payout on the last workday, as most workers are paid by piece rate or based on collective performance rate.

Recommendations for Immediate Action

1. Ensure that termination payouts are paid in a timely manner as per legal requirements.

COMPANY ACTION PLANS

1. Payment on the last workday is not possible for most of our workers, as the procedures for piece rate calculation cannot be processed by the accounting department on the same day. As workers typically leave the company without complying with the legal requirement to give one-month notice to the employer, it is especially difficult to process immediate payment of the last wage. Without allowing the employer to take the required steps of a flawless cancellation of employment by giving notice of the intent to leave the company, it will not be feasible to make the termination payout on the last workday. A related

common practice in the Chinese workforce is to not resign but return to work after a hiatus, of several months in some cases. For those workers who resign following the legal procedure of handing in their written notice of termination, the last wage is being paid timely as required by law. Education on general procedures of resignation and their benefits for both parties is being planned to be included throughout our upcoming project and the related trainings.

Action plan status: Planned

Planned completion date: 12/31/15

FINDING NO.9

INDUSTRIAL RELATIONS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. There is no policy on industrial relations and freedom of association.
2. The factory automatically enrolls every worker as affiliated members to the trade union without written application or consent. From worker interviews, it was noted that most workers are not aware that they are members of trade union. The labor union is managed with limited communication with and input from workers.
3. All the Trade Union Committee members and the chairman of the trade union hold managerial posts.
4. Employee Handbook Article 2.2.7 f) stipulates that workers would be fired in case of any involvement in any strike or work stoppage.

Local Law or Code Requirement

Constitution of Chinese Trade Unions, Article 10; FLA Workplace Code (Freedom of Association Benchmarks FOA.2, FOA.10, FOA.11, and FOA.22; Employment Relationship Benchmark ER.26)

Root Causes

1. **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.
2. It is a common practice in Chinese factories to automatically enroll workers into the existing official union.
3. The factory lacks awareness of FLA Workplace Code and Benchmarks. The personnel in charge of the Employee Handbook lack awareness on industrial relations and the attentive legal requirements.

Recommendations for Immediate Action

1. Remove the article in the Employee Handbook that considers involvement in strike grounds for dismissal.

COMPANY ACTION PLANS

1. The present Workers' Handbook will be subject of a major overhaul during the upcoming months. The article regarding dismissal as a consequence of participating in strikes will be removed.

Action plan status: Planned

Planned completion date: 12/31/15

2. As our union presently is not very active we will for now not set priority on developing a more detailed written policy on these matters. This point might be reconsidered in the future as the union becomes more active and involved in daily processes.

Action plan status: Planned

Planned completion date: 01/01/15

3. Presently our union is not very active and some procedures might be outdated. The general procedures regarding the union will be reviewed and amendments will be considered according to our situation.

Action plan status: Planned

Planned completion date: 12/31/15

4. Enrollment procedure for workers joining the union will be reviewed.

Action plan status: Planned

Planned completion date: 12/31/15

FINDING NO.10

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory's disciplinary system does not include workers' right to have a third party witness present during imposition of the disciplinary action. Additionally, the disciplinary system does not allow for review of the actions by someone senior to the manager who imposed the disciplinary actions.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.27.2.1 and ER.27.4)

Root Causes

1. Bypassing senior management review and third-party witness process are considered to be more efficient ways by management to take disciplinary actions.
2. The factory is not fully aware of FLA Workplace Code and Benchmarks.

COMPANY ACTION PLANS

1. All major cases are reported to factory management and warning letters are signed by the worker, the supervisor and the factory director.

Action plan status: In Progress

Planned completion date: 01/01/15

Progress update: 10/01/14 : Factory director is informed on disciplinary measures.

FINDING NO.11

POLICY & PROCEDURE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. There is a lack of procedures across all Employment Functions; there is also a lack of policies related to recruitment; grievance system; health and safety; and termination.

Local Law or Code Requirement

Root Causes

1. Management has not seen the need to formalize factory practices through policies and procedures; therefore, they have not allocated adequate resources to their development.
2. This issue has not been brought to the attention of the factory management during previous external audits.

COMPANY ACTION PLANS

1. We are presently developing different measures like an on-boarding program which will address the mentioned points and include an overhaul of related procedures.

Action plan status: In Progress

Planned completion date: 12/31/15

Progress update: 10/01/14 : * Formulated the frame requirements and goals of the first program * Communicating with potential service providers to support establishment

FINDING NO.12

REVIEW PROCESS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Factory does not have a system to conduct periodic review on existing policies and procedures.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.3, ER.29, ER.30.2, and ER.31.2)

Root Causes

1. Management does not see the need to periodically update the factory's policies and procedures.
2. There is an absence of staff with the specific responsibility of reviewing and updating policies and procedures.

COMPANY ACTION PLANS

1. Due to our limited size and flat structure we presently do not have in-depth procedures regarding regular policy review but act according to need and relevance. For the mid- to long-term and with a growing and developing structure such a procedure might become a valuable amendment. This point will be reviewed at the end of our presently ongoing project and study.

Action plan status: Planned

Planned completion date: 12/31/15

FINDING NO.13

TRAINING

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Based on an in-depth review of the factory's training practices, in respect of nearly all Employment Functions, training activities are not being adequately carried out.
2. No training material is provided to workers in the orientation training.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER1.2, ER.15, ER.17, ER.27, and ER.28)

Root Causes

1. Management does not fully recognize the benefits of training.
2. There is no dedicated training staff in this factory.
3. Factory does not have a detailed plan and separate budget for training.
4. There is an absence of a mechanism to harmonize production needs with training needs.

COMPANY ACTION PLANS

1. New workers joining the factory receive an introduction and a following on-the-job training from their respective superior. Workers using or operating machines and equipment receive additional training on the required equipment. Efforts we took over the last two years to establish a tailored training or apprenticeship in cooperation with different local vocational schools and national organizations and bureaus have so far not been fruitful or could not meet the skill level our workers require for the specialized and technical products we manufacture. In the course of our just initiated project in cooperation with the University of Mannheim we are re-engaging in the development and establishment of training and apprenticeship to address these vital issues.

Action plan status:	In Progress
Planned completion date:	12/31/15
Progress update:	10/01/14 : * Formulated the framework for the first step, the on-boarding program * In contact with different third party service providers to find a fitting partner for cooperation * Formulated first draft of the workers- and mid-management training

FINDING NO.14

COMMUNICATION & WORKER INVOLVEMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory's communication of its policies and procedures is not sufficient or systematic. There is an induction process, during which all new hires are informed about some factory rules and practices. However, there is no ongoing communication related to updates or changes.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.2, ER.15, ER.16.1, and ER.25.2; Compensation Benchmark C. 17)

Root Causes

1. FLA's revised Workplace Code and Benchmarks is still relatively new to the FLA-affiliated companies and their production facilities.
2. Management has not seen the need for ongoing or periodic communication with the workforce, other than orientation and sporadic training activities.

COMPANY ACTION PLANS

1. The introduction given to workers at point of hiring is presently under review by factory management and subject to revision. Development and establishment of a more holistic and capable orientation training will be one aspect of the on-boarding program being developed as a priority during the following months. According to the present concept, topics like factory grievance procedures, general rules and communication will also be included. The new Workers's Handbook will also be part of this on-boarding program. The communication on changes and updates of current rules and regulations happens via audio broadcasts in the factory during working hours and via notices put on the bulletin and info boards which are found at

several prominent places like the factory entrance, canteens, dormitories, etc.

Action plan status: In Progress

Planned completion date: 12/31/15

Progress update: 10/01/14 : Presently no new updates.

FINDING NO.15

COMPENSATION

FINDING TYPE: Uncorroborated Risk of Non Compliance

Finding Explanation

1. Based on worker interviews, their salary is not enough to cover all of their basic needs and provide a discretionary income.

Local Law or Code Requirement

FLA Workplace Code (Compensation Benchmark C.1.3)

Root Causes

1. The Chinese apparel industry currently does not provide wages that allow for the fulfillment of basic needs plus a discretionary income.
2. The factory is still in the process to adjust existing wage structure to meet required living wage for workers.

COMPANY ACTION PLANS

1. Living wages are a very complex matter and a question that causes controversial discussions in many developing and even some industrialized countries. As it is difficult to determine a specific 'true' living wage which applies to a certain region and all 'average' workers, it is hardly possible to give a final answer to this problem. In the case of our factory, the average income for a normal working week for piece rate workers would have been around 2,700 RMB per month for the year 2013. This value ranks above the local average income in our location. However, judging from similar discussions in countries like the USA, Germany and Switzerland for certain jobs or industries, this problem will not come to a final conclusion. Concerning work we do regarding this problem, we are still continuously monitoring the development of our workers wages and are working towards gradual and sustainable increase of wages, especially for the workers who are earning below the average value.

Action plan status: In Progress

Planned completion date: 01/01/16

Progress update: 10/01/14 : see details above