



COMPANY: adidas Group
COUNTRY: China
ASSESSMENT DATE: 10/09/12
MONITOR: FLA Assessor Team (China)
PRODUCTS: Accessories [items, such as handbag clasps, that are affixed to other products]
PROCESSES: Cut, Screen Printing/Printing, Other, Packing, Assembly, Injection
NUMBER OF WORKERS: 235
ASSESSMENT NUMBER: AA0000000004

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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 the 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.

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

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.

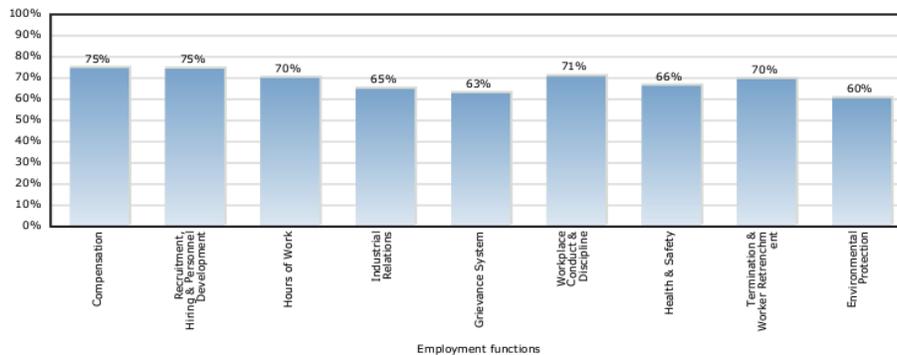
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that 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.

Uncorroborated Risk of Noncompliance: indicates a serious issue that has surfaced during the assessment, but one which the assessors were not able to corroborate through additional sources of information (e.g., allegation of retaliation against a worker by the factory management for participating in the assessment).

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.

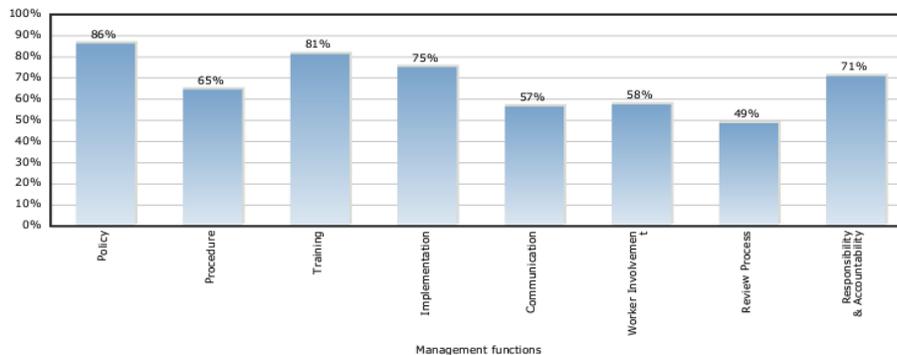
Average Score



Score by Management Function

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

Average Score



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	78.57%	100%	80%	33.25%	85.71%	90%	100%	83.33%	100%
Procedure	89.06%	91.67%	70.69%	50%	38.89%	83.33%	63.64%	54.55%	40.91%
Responsibility & Accountability	76.37%	86.6%	90.43%	75%	75%	86.6%	100%	88.83%	86.6%
Review Process	45.45%	45.45%	41.67%	22.73%	31.82%	35%	45.45%	30%	39.29%
Training	89.25%	86.89%	88.18%	81.03%	66.79%	80.38%	77.29%	77.14%	60.71%
Implementation	84.29%	81.58%	76.63%	60.87%	71.43%	97.92%	89.33%	72.06%	56.19%
Communication	56.25%	65%	54.17%	0%	27.78%	62.5%	88.89%	41.67%	52.86%
Worker Involvement	100%	N/A	N/A	100%	0%	N/A	N/A	58.33%	0%

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
Compensation
Employment Relationship
Forced Labor
Freedom of Association and Collective Bargaining
Hours of Work
Health, Safety and Environment
Non-Discrimination

Findings and Action Plans

FINDING NO.1

RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

The job description in the online advertisement for the quality inspector position states that applicants should be female and between 18 and 28 years old. During the assessment, it was observed that all quality inspectors were female.

Local Law or Code Requirement

FLA Workplace Code (Nondiscrimination benchmark ND.2; Employment Relationship benchmark ER.3)

Root Causes

1. Factory management is not aware of FLA's Code regarding non-discrimination in employment, including hiring on the basis of gender, age, etc.;
2. Factory management is used to only employing young female workers for the quality inspectors positions due to the cultural acceptability of designating certain positions as being gender or age specific;
3. The person in charge of the job descriptions has not received sufficient training on non-discrimination.

Recommendations for Immediate Action

Job requirements for all positions should exclude gender, age, and any other factor not related to the skills/experience required for the specific job.

COMPANY ACTION PLANS

1. Factory will organize an internal audit to review all the recruitment policies, as well as other related documents such as hiring policies, procedures, and records and to remove all discriminative clauses. Deadline: Dec 30, 2013
2. Factory will arrange training to all of the managerial staffs on all of the updated policies and procedures, the trainings records should be kept for evidence. Deadline: Jan 30, 2014
3. Factory will post the adidas work place standards in the prominent places along with the management trainings. Deadline: Jan 30, 2014

Action plan status: Planned

Planned completion date: 01/30/14

FINDING NO.2

HOURS OF WORK

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Except for the month of Chinese New Year, most workers worked overtime beyond the legal limit of 36 hours per month;
2. Attendance records for September 2012 showed that 12 workers' monthly overtime reached 83 – 89 hours, exceeding the 60-hour weekly limit as per FLA Code. They accounted for 10% of the total workforce.

Local Law or Code Requirement

Labor Law of PRC, Article 4; FLA Workplace Code (Hours of Work benchmark HOW.1)

Root Causes

1. Monthly turnover rate (25%) was too high; this has resulted in an insufficient and unstable workforce. Although the number of workers has decreased, the production target has remained the same, therefore increasing the workload for individual workers;
2. The factory has based its production planning on 55 – 60 hours a week, without safeguards to prevent employees from working more than 60 hours a week;
3. Not enough buyer oversight to identify and address the possible reasons behind excessive overtime.

COMPANY ACTION PLANS

1. Factory will apply for Comprehensive working hours' approval from local authority, which allows the factory to work overtime 36 hours a month for a certain period of time. Deadline: Dec 30, 2013.
2. Factory will work on a timeline to continually reduce the weekly working hours to meet the 60 hours a week within 6 months. Deadline: Oct 30 2013
3. Factory will make the production planning and forecast based on 50, maximum 54 hours a week; if working hour exceed 60 hours a week under very extreme circumstances, factory must apply for CM approval following adidas requirements. (Deadline: Dec 30, 2013).
4. Factory will report the monthly working hours status on a monthly basis, which include the working hours data for each week.
5. Factory management to organize a meeting to figure out 1) root cause of the high turnover rate to understand the worker needs, and make a detailed plan to retain workers; 2) develop a recruitment planning to deal with the peak seasons. A meeting minutes to be taken for systematic tracking. (Deadline: Jan 30, 2014)

Action plan status: Planned

Planned completion date: 01/30/14

FINDING NO.3

ENVIRONMENTAL PROTECTION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. At the chemical storage area, there was no sign indicating that it was a restricted area; there were also no Material Safety Data Sheets (MSDS) posted;
2. Hazardous waste collection/storage area was neither segregated nor secured; there was no fence or door.

Local Law or Code Requirement

Standard for Pollution Control on Hazardous Waste Storage GB18597, Article 8; FLA Workplace Code (Health, Safety, and Environment benchmarks HSE.1 and HSE.10)

Root Causes

1. Not enough staff resources to manage all of the factory's health, safety, and environmental needs;
2. Lack of training on chemical handling given to staff in charge of the chemical storage room;
3. Lack of an oversight mechanism to ensure that there is proper chemical and hazardous waste management;
4. Lack of coordination and effective communication between the Health and Safety Department and all different areas/departments of the factory.

Recommendations for Immediate Action

1. HSE staff is to immediately post a) a "Restricted Area" sign and b) all applicable MSDS in the chemical storage area;
2. Factory is to install a fence or segregate the waste storage area.

COMPANY ACTION PLANS

1. 1. Factory will evaluate the HSE resources. Factory will add 2 qualified persons to handle HSE issues. Deadline: Dec 30, 2013
2. Factory to develop the chemical and hazardous waste management procedure, and internal monitoring procedure to manage the environmental issues. Factory will mark the chemical storage area and post MSDS for all the chemicals, and segregate the waste storage area with fence or door. Deadline: Dec 30, 2013
3. Factory to conduct the monthly worker representative committee meeting, in which the environmental issues should be addressed, to develop sustainable solutions and involve relevant departments to address the issues collaboratively. Deadline: Jan 30, 2014

Action plan status: Planned

Planned completion date: 01/30/14

FINDING NO.4

HEALTH AND SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Factory did not provide pre-job occupational health examinations for workers who work with hazardous chemicals, e.g., workers working in injection molding and printing workshops.

Local Law or Code Requirement

Law of Prevention and Control of Occupational Disease, Articles 27 and 36; FLA Workplace Code (Health, Safety and Environment benchmark HSE.1)

Root Causes

1. Not enough staff resources to manage the factory's occupational health examinations;
2. There is no effective internal mechanism to monitor health and safety implementation.

Recommendations for Immediate Action

Factory should provide pre-job occupational health examinations for new workers who will be working with hazards, as required by law.

COMPANY ACTION PLANS

1. 1. Factory to assign one person to handle the Industrial Hygiene related issue. Deadline: Oct 30 2013.
2. Factory will arrange the pre-job, on-job and post-job health check and maintain the records. The on-job health check would be executed every 6 month. The recent one should be done before the end of the year. Deadline: Dec 30, 2013.
3. Factory to obtain the Industrial Hygiene certificate and establish the IH management system. Deadline: April 30, 2014.

Action plan status: Planned

Planned completion date: 04/30/14

FINDING NO.5

COMPENSATION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Most workers are asked to attend morning meetings outside of regular working hours. While work normally starts at 08:00 (20:00 for the night shift), said meetings take place about 10 minutes before the official starting time. These 10 minutes are not treated as effective working time and are not being compensated accordingly. The result is that, for each worker, 3.3 hours of overtime per month are not paid;
2. Factory's time recording system records overtime in units of 30 minutes. As a result, all overtime work for periods shorter than 30 minutes is not paid.

Local Law or Code Requirement

Chinese Labor Law, Article 44; FLA Workplace Code (Compensation benchmarks C.5 and C.7; Hours of Work benchmark HOW.1)

Root Causes

1. Traditionally, morning meetings are used for the a) preparation of work and b) convenience of handover between day and night shifts. Neither management nor workers are aware that this is an unfair practice; they are also unfamiliar with FLA Code and Benchmarks;
2. There are no effective communication channels in the factory for workers to raise complaints;
3. Recording overtime in units of 30 minutes is convenient for management, as it simplifies the overtime calculation and recording process.

Recommendations for Immediate Action

1. Factory management is to ensure full payment of all working time, including team meetings before regular working hours;
2. Factory is to change the wage calculation of effective overtime to at least a 15-minute window.

COMPANY ACTION PLANS

1. 1. Factory to review all the policies and procedures to remove those improper items to ensure 1) morning meetings or any other meeting before and/or after the start of the working day is recorded as part of the working hours and b) that the wage calculation of effective overtime is changed to at least a 15-minute window; Deadline: Oct 30, 2013
2. Factory to train the management and workers on the revised policies and procedures. Training records should be maintained for systematical tracking. Deadline: Dec 30, 2013

Action plan status: Planned

Planned completion date: 12/31/13

FINDING NO.6

COMPENSATION

FINDING TYPE: Immediate Action Required

Finding Explanation

- i) The factory policy on Compensation and Benefits states that maternity leave is 90 days, while the Chinese Special Protection Regulation on Female Workers have extended the maternity leave to be 98 days in April, 2012.
- ii) Factory policy has an article on national holiday, which says that if workers are required to work on a national holiday, the overtime would be paid or alternatively compensated with leave on another day.
- iii) Inconsistency was found between article 2.2 of Haiyun Workplace Rules (Chapter One) and Compensation Policy article 7.4. The former regulates that employees is not entitled to skill bonus during probation period; the latter states that the employees can enjoy skill bonus during probation period.

Local Law or Code Requirement

Chinese Labor Law, article 44; Special Protection Regulation on Female Workers, article 7;FLA Workplace Code (Hours of Work benchmarks, HOW.1; Employment Relationship benchmarks, ER.1)

Root Causes

- i) Factory management do not have a system to track recent changes on laws and regulations or is informed by local government on the changes.

- ii) There is no review process for factory policies and procedures.
- iii) Human Resources department is lack of staff and resources to ensure proper management functions through the employment cycle.

Recommendations for Immediate Action

- i) Related clauses in Employment Regulations and Leave Management Policy should be revised immediately in accordance with the latest law. The revised policy should be communicated to all workers and be posted on the notice board.
- ii) Factory management to review all related policies/procedures and make sure they are in consistency.

COMPANY ACTION PLANS

1. 1. Factory to review and update the current policies to ensure 1) update the maternity leave to 98 days, 2) overtime on national holiday should be paid according to law requirements, 3) all bonus policy is consistent on different factory book.
Deadline: Oct 30, 2013
2. Factory to train the management and workers on the updated policies. Deadline: Dec 30, 2013
3. Factory to assign one person in HR department to track the legal changes and put this as a part of HR management system with records. Deadline: Dec 30, 2013
4. Factory internal HR audit should include the policy and procedure review. Deadline: Dec 30 2013

Action plan status: Planned

Planned completion date: 12/30/13

FINDING NO.7

ENVIRONMENTAL PROTECTION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Factory has not conducted testing for the interior air quality of dust in the crushing/mixing workshop, where massive dust is generated in the process of operation. Besides, the ventilation system was not effective to exhaust the dust; the hood was installed too far from the emission location;
2. Air emissions (TSP) testing results exceeded legal limits according to national standard GB3095-1996. The testing site was located at the exterior air emission outlet. Besides, the exterior air emission outlets were installed too low.

Local Law or Code Requirement

Ambient Air Quality Standard GB3095-1996; FLA Workplace Code (Health, Safety, and Environment benchmarks HSE.1 and HSE.10)

Root Causes

1. There is no effective environmental protection system in place;
2. There are limited resources in the HSE Department, as there is only 1 HSE staff member available; Department staff is also responsible for handling HR issues;
3. No active worker representation and participation in the HSE Committee.

Recommendations for Immediate Action

Factory to perform test for interior air quality of dust during crushing/mixing workshop operations. r air quality of dust during operation in crushing/mixing workshop.

COMPANY ACTION PLANS

1. 1. A. Factory to conduct testing for the interior air quality of dust in the crushing/mixing workshop. B. In addition, factory to check the filtration function of the ventilation system and adjust the hood to be nearer to improve the effectiveness.
Deadline: Dec 30, 2013
2. A. Factory to adjust the installment of the exterior air emission outlets according to the requirements/recommendation in the EIA report. B. Also, factory must conduct the air emission test, to keep the testing result. C. Factory management must remediate any findings identified by the emission tests. Deadline: Dec 30, 2013
3. A. Factory to develop an internal monitoring procedure and assign one person to be in charge of air quality monitoring. B. The assigned person is to be trained on the procedures and monitoring knowledge. C. The monitoring records would be maintained for follow-up for systematic tracking. Deadline: Jan 30, 2014
4. A. Factory to include air quality and emission management into the simple Environmental system. B. The procedure should be reviewed and updated at least once a year. C. The HSE internal audit should cover the procedures and implementations of the air quality and emission. Deadline: Jan 30, 2014

Action plan status: Planned

Planned completion date: 01/30/14

FINDING NO.8

RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

Factory management is using employment agencies/dispatching companies that are requiring workers to pay 10-50CNY as a referral/hiring fee.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmark ER.5.3)

Root Causes

1. Factory management considers that the oversight for preventing recruitment fee charges is out of its scope; therefore, no proactive action has been taken;
2. Lack of a strict oversight mechanism for the operation of recruitment agents and dispatching companies in China.

Recommendations for Immediate Action

1. Factory management is to communicate to all dispatching companies that no recruitment/dispatch fees shall be charged to workers;
2. Factory management is to conduct worker interviews immediately after hiring to identify if any dispatched workers have paid recruitment fees and, if so, how much was paid.

COMPANY ACTION PLANS

1. 1. Factory to make an agreement with all of the labor agencies that they use, prohibiting charging workers recruitment fees. Deadline: Oct 30, 2013
2. Factory to monitor the implementation of the labor agencies through randomly interview of the workers. Deadline: Oct 30, 2013
3. The monitoring is to be a regular audit once per year for each labor agency. Oct 30, 2013

Action plan status: Planned

Planned completion date: 10/30/13

FINDING NO.9

RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Employment contracts do not specify the exact amount of agreed-upon salary; they only provide "Basic Salary" in writing.

Local Law or Code Requirement

Law of Employment Contracts of the PRC, Article 17; Labor Law of PRC, Article 19; FLA Workplace Code of Conduct (Compensation benchmark C.1)

Root Causes

1. Since the local labor bureau updates the minimum wage amount regularly, the factory considers it unnecessary to write the specific salary in the employment contracts;
2. HR personnel are not fully aware of the legal requirements for creating appropriate employment contracts.

COMPANY ACTION PLANS

1. 1. All details of employees' wages will be clearly recorded in workers' contracts and it will also be stated in the payroll in order to let employees know the breakdown details of their wages well. The current employment contracts will be supplemented with an agreement which defines the compensation package. (Deadline: Oct 30, 2013)

2. Factory management will post the latest salary structure on the bulletin board, if there is any update. (Deadline: Dec 30, 2013)
3. From 12 Sep., 2013, every new worker will sign on an employment contract to confirm acknowledgement of wage details on the first day at work.

Action plan status: Planned

Planned completion date: 12/30/13

FINDING NO.10

HEALTH AND SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory did not provide suitable or adequate personal protective equipment (PPE) for workers who handle hazardous chemicals and for manual-forklift operators. For instance, according to relevant MSDS, there should be 4 kinds of PPE (glasses, gloves, masks, and protective clothing) provided for workers handling de-molding agents; however, based on physical observation, only gloves were available on site. There were also no helmets provided to forklift operators with potential exposure to falling goods;
2. It was observed that the practice of wearing PPE was not effectively implemented in the injection molding, printing, and crushing workshops, e.g., some workers were not wearing earplugs and masks.

Local Law or Code Requirement

Law of Prevention and Control of Occupational Disease, Article 23; FLA Workplace Code (Health, Safety, and Environment benchmark HSE.7)

Root Causes

1. There is no effective health and safety management system in place;
2. There are limited resources in the HSE Department, as there is only 1 HSE staff member available; Department staff is also responsible for handling HR issues.

Recommendations for Immediate Action

Factory is to provide suitable and adequate PPE for workers exposed to hazards. Concerned workers should be trained on the usage, storage, and replacement of PPE.

COMPANY ACTION PLANS

1. 1. Factory will enhance the workers' awareness of the importance of PPE by training employees and provide proper PPE to employees. Deadline: Oct 30, 2013
2. The HSE staff will frequently check the various working stations to make sure that employees wear required PPE at work.

Action plan status: Planned

Planned completion date: 10/30/13

FINDING NO.11

HEALTH AND SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. It was observed that cartons were stacked too high in the warehouse; they were touching the sprinkler system;
2. It was found that the first aid kit provided in the warehouse was not fully stocked as required. According to prescriptions in the first aid kit, 14 items should be stocked; however, only 2 items were found in the kit;
3. Some chemicals and compressed gas cylinders are not properly stored; they were placed in a Low-Voltage Transformer Room, creating a risk of explosion.

Local Law or Code Requirement

FLA Workplace Code (Health, Safety and Environment benchmarks HSE.1, HSE.6, and HSE.7)

Root Causes

1. There is no effective internal mechanism to monitor health and safety implementation; 2. There are limited resources in the HSE Department, as there is only 1 HSE staff member available; Department staff is also in charge of HR issues.

Recommendations for Immediate Action

1. Factory is to ensure that cartons are not stacked too high (at least 1 meter below the sprinkler system is recommended);
2. HSE staff is to fully stock all first aid kits and regularly check them;
3. Factory is to a) remove chemicals and compressed gas cylinders out of the Low-Voltage Transformer Room and b) store them in a safe area.

COMPANY ACTION PLANS

1. 1. A. Factory to develop a policy on the height of the cartoon storage, and decrease the height of the stored carton. B. At the same time, factory to mark a height line on the wall to warn if there is any noncompliance. (Oct 30, 2013)
2. A. Factory to assign a person to take care of the first aid kit and add one checklist for each kit. B. The person in charge should ensure that the first aid kit is fully stored according to the list. Both daily and weekly regular check is to be executed, the supplying records is to be kept for reference. (Dec 30, 2013)
3. A. Remove the chemicals and compressed gas cylinders out of the transformer room. B. The person in charge is to be trained that no such operation allowed anymore. (Dec 30, 2013)
4. Factory to revise the HSE inspection checklist to include the first aid kit and the compressed vessels. (Dec 30, 2013)

Action plan status: Planned

Planned completion date: 12/30/13

FINDING NO.12

REVIEW PROCESS

FINDING TYPE: Immediate Action Required

Finding Explanation

The factory does not conduct periodic review of its policies and procedures on compensation; industrial relations; workplace conduct and discipline; grievance system; environmental protection; and health and safety. Following are examples of some instances observed:

1. Factory policy on Compensation and Benefits states that maternity leave is 90 days, even though the Chinese Special Protection Regulation on Female Workers extended maternity leave to 98 days in April 2012;
2. Factory policy has an article on national holidays, which says that if workers are required to work on a national holiday, overtime would be paid or alternatively compensated with leave on another day. According to legal requirements, working on national holidays has to be compensated at a premium rate; alternative paid leave is not applicable;
3. Inconsistency was found between Article 2.2 of the factory's Workplace Rules (Chapter One) and Compensation Policy, Article 7.4. The former regulates that employees are not entitled to the skill bonus during their probation period; the latter states that employees can enjoy the skill bonus during their probation period.

Local Law or Code Requirement

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

Root Causes

1. There is no mechanism or procedure to ensure that there is an ongoing review process for factory's policies and procedures;
2. Factory management does not see the need to update its policies and procedures periodically;
3. Absence of staff with the specific responsibility of reviewing and updating policies and procedures.

Recommendations for Immediate Action

1. Related clauses in Employment Regulations and Leave Management Policy should be revised immediately to be in accordance with the latest law. The revised policy should be communicated to all workers and posted on the notice board;
2. Factory management is to review all related policies/procedures and make sure they are consistent.

COMPANY ACTION PLANS

1. 1. Factory to review and update the current policies to ensure 1) update the maternity leave to 98 days, 2) overtime on national holiday should be paid according to law requirements, 3) all bonus policy is consistent on different factory book.
Deadline: Oct 30, 2013
2. Factory to train the management and workers on the updated policies. Deadline: Dec 30, 2013

3. Factory to assign one person in HR department to track the legal changes and put this as a part of HR management system with records. Deadline: Dec 30, 2013
4. Factory internal HR audit should include the policy and procedure review. Deadline: Dec 30 2013

Action plan status: Planned

Planned completion date: 12/30/13

FINDING NO.13

COMMUNICATION & WORKER INVOLVEMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Factory has a loophole in communications on several employment functions: no procedures on communications on industrial relations, workplace conduct and discipline, and grievance system. While regarding other three employment functions - compensation, hours of work, health and safety, although there are available procedures, the factory just sporadically communicates to workers. This partial effort cannot ensure workers know and understand factory's up-to-date policy and procedures.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks, ER.1.2, ER.16.1, ER.25.2)

Root Causes

- i) There is no management appreciation of the benefits of worker integration and communication. Management does not see the need for an ongoing and periodic communication with workforce other than orientation and some sporadic training activities.
- ii) Top-down communication without workers' feedback is traditionally acceptable for management.

COMPANY ACTION PLANS

1. 1. Factory management to evaluate the current communication policies and the existing communication channels to ensure that all policies and procedures are properly communicated to workers and verify that all communication channels such as the suggestion box, grievance hotline, quarterly worker-management meeting, worker engagement survey are functioning well.
2. Both the workers and the factory management must be trained on the revised policies and procedures.
3. All the communication records with the workers to be maintained and analyze in order to be improved.
4. The communication policies and channels would be reviewed once a year during the labor internal audit.

Action plan status: Planned

Planned completion date: 12/30/13

FINDING NO.14

INDUSTRIAL RELATIONS

FINDING TYPE: Sustainable Improvement Required

Finding 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.

COMPANY ACTION PLANS

1. According to China law, the workers can only join a registered trade union which is under the umbrella of ACFTU system. The factory is now evaluating how to register a union so that the workers can join.
2. A. Factory management is to enhance the function of the workers' representative committee, which is mainly focusing on the workers' welfare, workplace conditions, etc. Such like to revise the chapter to ensure the decision made by the workers' representative committee can be heard by the management; to set timeline for the management to respond to the committee's request. B. Factory to ensure that all of the workers' representatives are selected by the workers themselves. C. Factory to set a mechanism for the committee to involve in the decision making of the factory operation; Dec 30, 2013
All of the meeting minutes should be kept for further reference. Dec 30, 2103

Action plan status: Planned

Planned completion date: 12/30/13

FINDING NO.15

WAGES AND BENEFITS

FINDING TYPE: Uncorroborated Risk of Non Compliance

Finding Explanation

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

- i) The Chinese apparel industry currently does not provide wages that allow for the fulfillment of basic needs plus a discretionary income;
- ii) There is no wage structure in the factory that would enable workers to progressively earn a wage level that meets basic needs.

COMPANY ACTION PLANS

1. Management is to take an online FLA Fair Wage Self-Assessment; Dec 30, 2013
2. Factory to refer to the recommendations from the Survey of the Fair Wages conducted by FLA to decide the next steps; April 30, 2014

Action plan status: Planned

Planned completion date: 04/30/14