



COMPANY: **Nike, Inc**
COUNTRY: **China**
ASSESSMENT DATE: **10/15/12**
MONITOR: **FLA Assessor Team (China)**
PRODUCTS: **Apparel**
PROCESSES: **Sew, Wash**
NUMBER OF WORKERS: **2216**
ASSESSMENT NUMBER: **AA0000000005**

What's Included in this Report

- Understanding this Assessment Report
- Glossary
- Score by Employment Function
- Score By Management Function
- Score Summary
- Summary of Code Violations Table
- Findings and Action Plans

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.

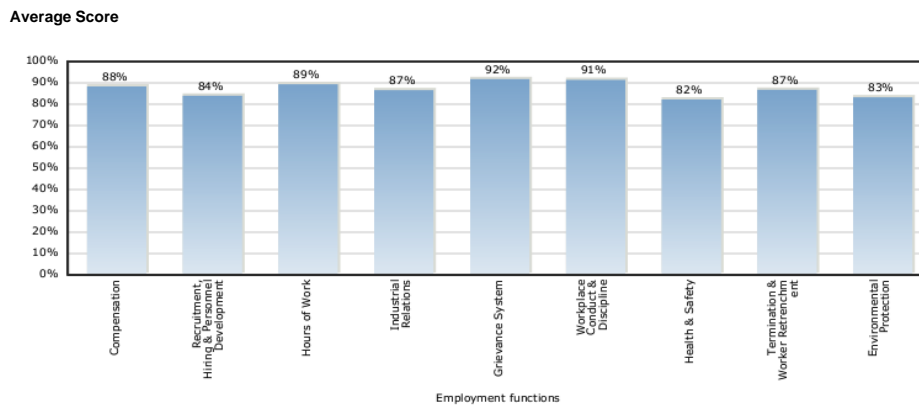
Local law or Code Requirement: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

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).

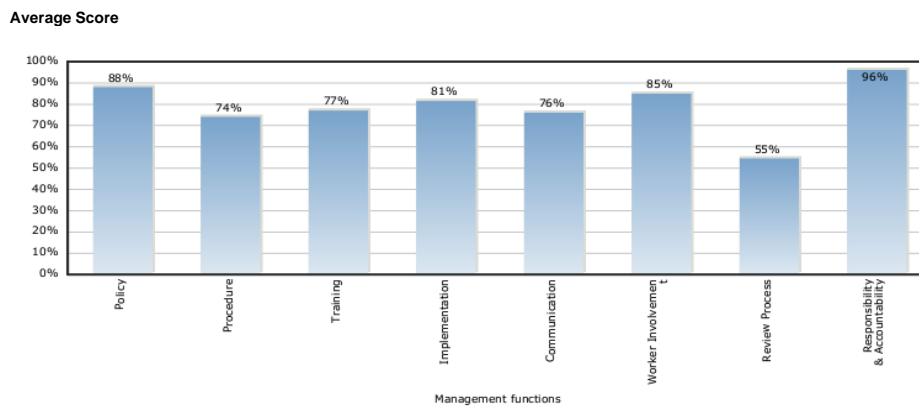
Score by Employment Function

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.



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.



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 | Aggregate Score |
|---------------------------------|---|---------------|---------------|----------------------|------------------|--------------------------------|-----------------------------------|-----------------|--------------------------|-----------------|
| Policy | 85.71% | 87.5% | 80% | 100% | 100% | 90% | 77.78% | 83.33% | 100% | 89.37% |
| Procedure | 84.38% | 82.14% | 100% | 45.83% | 100% | 83.33% | 69.7% | 70% | 62.5% | 77.54% |
| Responsibility & Accountability | 85.86% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 98.43% |
| Review Process | 70% | 65% | 63.64% | 72.73% | 72.73% | 65% | 70% | 65% | 67.86% | 67.99% |
| Training | 67.18% | 90.38% | 90.93% | 93.1% | 95.67% | 95.11% | 77.48% | 85.96% | 73.72% | 85.5% |
| Implementation | 78.1% | 84.57% | 80.42% | 75.86% | 94.12% | 96.15% | 86.67% | 79.15% | 79.91% | 83.88% |
| Communication | 75% | 80% | 85.42% | 100% | 72.22% | 87.5% | 88.89% | 58.33% | 28.33% | 75.08% |
| Worker Involvement | 100% | N/A | N/A | 100% | 100% | N/A | N/A | 50% | 100% | 90% |
| Aggregate Score | 80.78% | 84.23% | 85.77% | 85.94% | 91.84% | 88.16% | 81.5% | 73.97% | 76.54% | |

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 |
| Freedom of Association and Collective Bargaining |
| Hours of Work |
| Health, Safety and Environment |
| Non-Discrimination |

Findings and Action Plans

FINDING NO.1

INDUSTRIAL RELATIONS

FINDING TYPE: Immediate Action Required

Finding Explanation

i)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.

ii)Employees of the factory automatically become members of the only trade union once they join the factory, without any written application form or agreement. 50% of interviewed workers were unaware of the union's existence. Management appointed the union chairman and most of the committee members. There was no evidence to show that workers freely elected the trade union committee members;

iii)Copies of the current collective bargaining agreement (CBA) are not provided to workers. During worker interviews,

employees did not know of a collective bargaining agreement;
iv) Although 1 RMB is deducted from workers' salary every month towards trade union fee, no written consent was acquired from workers.

Local Law or Code Requirement

FLA Workplace Code (Freedom of Association benchmarks FOA. 2, FOA.10, FOA.11, and FOA.24; Employment Relationship benchmark ER.16.2; Compensation benchmark C.11)

Root Causes

- i) Factory management: 1) is not aware of FLA's Code of Conduct (COC), as related to CBA and union fee deduction and 2) does not think it is necessary to provide employees copies of the CBA. It is not a legal requirement in China to provide workers a copy of the CBA;
- ii) There is limited coverage in the orientation training about industry relations and the current trade union;
- iii) Factory management does not appreciate the benefits of worker representation in the Trade Union Committee.

Recommendations for Immediate Action

- i) Factory management is to obtain application forms from current employees who want to join the trade union;
- ii) Factory should obtain written authorization from all factory trade union members regarding the union membership fee deduction.

COMPANY ACTION PLANS

1.

Action plan status: Completed

Planned completion date: 12/31/12

Progress update: 08/11/14 : 1. On behalf of the workers, the trade union consulted and signed with the factory managers, representing the interests of the workers. The latest collective bargaining agreement (CBA) is valid between April 10, 2013 to April 9, 2018. The clause about the conflict between the rights and obligations of trade union and original non-administrative provisions of the agreement, had adjusted to set to the CBA. 2. The factory held an employee representative meeting in December 2012 to discuss posting the CBA in the production site. The factory provided a notice to inform the staff where to get a copy. HR assigned a member of staff to enhance the training given to workers, supervisors, and managements on the newly revised Freedom of Association procedures. 3. The staff submitted the union application and union fee payment agreement in November 2012. The policy was posted on the notice board for all workers to see. In December 2012, we trained every supervisor on the Freedom of Association policies and procedures. The employees who wanted to join the trade union did so voluntarily. The members of Union Committee were freely elected by workers. Managers did not interfere with the election. The establishment of factory's policies and regulations were made during employee representative meetings. 4. The trade union holds the worker representative meetings once every quarter to discuss issues such as factory regulations and rules and the opinions of employees. 5. The staff submitted the union application and union fee payment agreement in November 2012. The policy was posted on the notice board for all workers to see. In December 2012 we trained every supervisor and informed them of the policy of Freedom of Association procedures. The employees who wanted to join the trade union did so voluntarily.

Completion date: 12/31/12

FINDING NO.2

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Immediate Action Required

Finding Explanation

- i) The factory's Reward and Punishment Regulation, Chapter 4, 1.16, stipulates that an employee will be fired immediately if they are found smoking in non-smoking areas. However, the factory's Non-Smoking Regulation, Chapter 6.4.1, states that if an employee violates the factory's non-smoking rule, they will be punished according to the progressive disciplinary procedure: the first time, the factory will issue a written warning; the second time, the factory will terminate employment relations with the employee; therefore, an inconsistency was found between these 2 regulations;
- ii) Based on disciplinary records, an employee was fired summarily in February 2012, because he was found smoking in the toilet

(a non-smoking area); however, before the dismissal, he was given no written warning. Although management claimed that they are currently using the Non-Smoking Regulation, the punishment was still carried out according to the Reward and Punishment Regulation.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.27.1 and 27.2)

Root Causes

- i)The factory does not recognize the importance of policy and procedure review;
- ii)This issue was not raised in previous external audits/assessments;
- iii)Lack of effective communication and worker consultation on the newly formulated policies.

Recommendations for Immediate Action

HR department is to align Reward and Punishment Regulation with the Non-Smoking Regulation.

COMPANY ACTION PLANS

1.

Action plan status: Completed

Planned completion date: 12/31/12

Progress update: 08/11/14 : 1. We revised the incentive management measures in November 2012, adjusting the original rule from immediate dismissal when first caught smoking to the issue of a warning, followed by dismissal. 2.In November 2012,the revised edition of incentive management measures was announced to all staff. 3.In November 2012 we held an employee representative meeting and the representatives of staff agreed with the revised contents of the incentive management measures. 4.In December 2012,the revised edition of the incentive management measures was passed during company executive meeting, which was attended by the heads of each department. This was confirmed by authorities from each department. 5. Management and employees received training on the revised policy (HR assigned this task to a member of staff). We included this policy training in 2013's training plan and finished the annual training in July 2013. 6.We had established a periodic review of policies and procedures to ensure that the policies and procedures be updated in accordance with the factory's needs. Employees participated in making policies by providing input during employee representative meetings, thus ensuring that the policy review process that can be improved over time. 7. HR department will lead this audit each year.

Completion date: 12/31/12

FINDING NO.3

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

- i)The recruitment advertisements online for QC and warehouse workers have discriminative clauses, such as age, gender, and marital status requirements;
- ii)In the employment contracts signed between the factory and workers in decontamination positions, there was no clear indication that the work involves using hazardous chemicals and occupational disease hazards;
- iii)Factory does not have specific procedures for hiring special categories of workers, including young workers aged between 16 and 18, pregnant workers, and disabled workers.

Local Law or Code Requirement

Labor Law of PRC, Article 19; Law of Employment Contracts, Article 17; Law of the PRC on the Prevention and Control of Occupational Diseases, Article 34; FLA Workplace Code (Nondiscrimination benchmarks ND.1 and ND.2; Employment Relationship benchmark ER.7)

Root Causes

- i)Factory is not aware that these discriminative requirements are not compliant with local law and FLA Code;
- ii)With a high turnover rate in the decontamination positions, the factory has been rotating workers from unhazardous positions to work in decontamination positions without adjusting employment contracts accordingly;
- iii)Management has not seen the need to have policy and procedure for young workers or other special categories of workers,

as they have not hired any young workers so far. They have hired several disabled workers, but not a sufficient number to meet the minimum legal requirement.

Recommendations for Immediate Action

- i) Management is to remove all discriminative clauses from job advertisements online and make sure that non-discrimination is enforced through all employment functions;
- ii) Management, HR staff, and supervisors should be trained on the non-discrimination policy.

COMPANY ACTION PLANS

1. 1. We removed the limits on the gender and age from the warehouse and quality management requirements. We revised the recruitment policy to include more information about against discrimination in November 2012. 2. 50 HR staffers, recruiters and supervisors received training on the recruitment policy in December 2012. We incorporated this policy training in 2013 training plan and finished the training in July 2013. 3. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employee representatives participated in the creation of these policies. 4. We assigned a member of staff HR department to lead this annual review process. ii) 1. We signed the "Notification of health hazard: with the decontamination workers as an appendix to their labor contracts in November 2012. 2. All employees, supervisors, and managers received training on the revised "Notification of health hazard" procedure. 3. We assigned a member of staff HR department to lead this annual review process. iii) 1. We improved the recruitment policy in November 2012 and added a process of recruitment for all special categories of workers, including young workers between 16 and 18, pregnant workers, and disabled workers 2. 50 HR staffers, recruiters and supervisors received training on the recruitment policy in December 2012. We incorporated this policy training in 2013 training plan and finished the training in July 2013. 3. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employee representatives participated in the creation of these policies. 4. We assigned a member of staff HR department to lead this annual review process.

Action plan status: Completed

Planned completion date: 07/31/13

Progress update: 08/11/14 : 1. We removed the limits on the gender and age from the warehouse and quality management requirements. We revised the recruitment policy to include more information about against discrimination in November 2012. 2. 50 HR staffers, recruiters and supervisors received training on the recruitment policy in December 2012. We incorporated this policy training in 2013 training plan and finished the training in July 2013. 3. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employee representatives participated in the creation of these policies. 4. We assigned a member of staff HR department to lead this annual review process. ii) 1. We signed the "Notification of health hazard: with the decontamination workers as an appendix to their labor contracts in November 2012. 2. All employees, supervisors, and managers received training on the revised "Notification of health hazard" procedure. 3. We assigned a member of staff HR department to lead this annual review process. iii) 1. We improved the recruitment policy in November 2012 and added a process of recruitment for all special categories of workers, including young workers between 16 and 18, pregnant workers, and disabled workers 2. 50 HR staffers, recruiters and supervisors received training on the recruitment policy in December 2012. We incorporated this policy training in 2013 training plan and finished the training in July 2013. 3. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employee representatives participated in the creation of these policies. 4. We assigned a member of staff HR department to lead this annual review process.

Completion date: 07/31/13

FINDING NO.4

COMPENSATION

FINDING TYPE: Immediate Action Required

Finding Explanation

- i) The factory does not register workers with the government social insurance agency during their probation period. As a result, at the time of the assessment, 5% of the workers in the factory were not covered by social insurance;
- ii) Annual leave is only provided to workers who have worked in this factory for more than 12 months; according to local law, workers are entitled to annual leave if their historical work experience is more than 12 months, including their previous jobs;

iii)The factory's Hours of Work Policy states: 1) if a worker arrives at work late, the time lost at work will be deducted from the worker's leave in the order of annual leave, compensation leave and personal leave, which are calculated by hours, not actual minutes; 2) overtime work is calculated by a window of 30 minutes.

Local Law or Code Requirement

Paid Annual Leave Regulation (2007), Article 3; Social Insurance Law of PRC (2010), Article 58; Implementation Measures of Employees' Paid Annual Leave (2008), Article 5; FLA Workplace Code (Compensation benchmarks C.5 and C.7; Harassment or Abuse benchmark H/A.2)

Root Causes

- i)During the probation period, there is a high worker turnover rate. While commercial insurance is paid to cover work-related accidents for all workers, the factory thought there was no need to pay for the national social insurance during the probation period;
- ii)Legal division of the parent company has implemented the aforementioned annual leave policy in all affiliated subsidiaries; therefore, this factory did not review the policy in line with the latest legal requirements;
- iii)Management is not familiar with FLA code and benchmarks; the problem with the Hours of Work Policy was not pointed out in previous external audits.

Recommendations for Immediate Action

Factory is to ensure that all employed workers are covered by social insurance from the beginning of their employment, including probation period.

COMPANY ACTION PLANS

1. 1.We revised the attendance management approach in December 2012, adjusting the original annual leave provisions. The employees who have been working in our company for more than 12 months can enjoy paid annual leave. Those who worked for 12 months at other factories can also enjoy paid leave. Documents should be provided by the employees during their probation period, and verified by human resources management. After the verification of documents, employees can enjoy paid annual leave. Otherwise, their employment cannot be seen as continuous. paid annual leave days are based on the accumulated work years including all their pervious jobs." 2.In December 2012 we held a meeting and all representative staff and reached an agreement about the revised contents of the attendance management approach. 3.In December 2012 the revised edition of the attendance management approach was passed during the executive meeting. 4.In December 2012 the revised edition of the attendance management approach was released to all staff. 5. All 2000 staff of received training on the revised policy. 6. We compensated the staff who did not receive annual leave upon joining our factory in 2012. 7. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employee representatives participated in the creation of these policies. 8.We assigned a member of staff HR department to lead this annual review process. 1.We revised the attendance management approach in October 2012. We removed the 5-minute lateness clause, and adjusted the minimum hours of leave (from 1 hour to 0.5 hours) and changed the original work overtime hours window from half an hour to 15 minutes. The factory now allows workers to choose leave on their own. 2.In October 2012 we held a meeting and all representative staff and reached an agreement about the revised contents of the attendance management approach. 3.In December 2012 the revised edition of the attendance management approach was passed during the executive meeting. 4.In December 2012 the revised edition of the attendance management approach was released to all staff. 5. All 2000 staff of received training on the revised policy. 6.The department of HR was responsible for adjusting the attendance system and ensuring the accuracy. 7. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employee representatives participated in the creation of these policies. 8. We assigned a member of staff HR department to lead this annual review process. 9. The members of staff who were on a probation period were all paid social security by the factory in November 2012. Their social insurance coverage has been 100% since then.

Action plan status: Completed

Planned completion date: 12/31/12

Progress update: 08/11/14 : 1.We revised the attendance management approach in December 2012, adjusting the original annual leave provisions. The employees who have been working in our company for more than 12 months can enjoy paid annual leave. Those who worked for 12 months at other factories can also enjoy paid leave. Documents should be provided by the employees during their probation period, and verified by human resources management. After the verification of documents, employees can enjoy paid annual leave. Otherwise, their employment cannot be seen as continuous. paid annual leave days are based on the accumulated work years including all their pervious jobs." 2.In December 2012 we held a meeting and all representative staff and reached an agreement about the revised contents of the attendance management approach. 3.In December 2012 the revised edition of the attendance management approach was passed during the executive meeting. 4.In December 2012 the revised edition of the attendance management approach was released to all staff. 5. All 2000 staff of received training on the revised policy. 6. We compensated the staff who did not receive annual leave upon joining our factory in 2012. 7. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employee representatives participated in the creation of these policies. 8.We assigned a member of

staff HR department to lead this annual review process. 1. We revised the attendance management approach in October 2012. We removed the 5-minute lateness clause, and adjusted the minimum hours of leave (from 1 hour to 0.5 hours) and changed the original work overtime hours window from half an hour to 15 minutes. The factory now allows workers to choose leave on their own. 2. In October 2012 we held a meeting and all representative staff and reached an agreement about the revised contents of the attendance management approach. 3. In December 2012 the revised edition of the attendance management approach was passed during the executive meeting. 4. In December 2012 the revised edition of the attendance management approach was released to all staff. 5. All 2000 staff of received training on the revised policy. 6. The department of HR was responsible for adjusting the attendance system and ensuring the accuracy. 7. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employee representatives participated in the creation of these policies. 8. We assigned a member of staff HR department to lead this annual review process. 9. The members of staff who were on a probation period were all paid social security by the factory in November 2012. Their social insurance coverage has been 100% since then.

Completion date: 12/31/12

FINDING NO.5

ENVIRONMENTAL PROTECTION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

The solid and hazardous waste collecting area was observed to be neither segregated nor secure. Only 1 type of waste container was placed on the production floor, and its label did not specify which kind of waste it is built to hold; this caused mixture of waste.

Local Law or Code Requirement

Prevention and Control Law of Environmental Pollution, Solid Waste, Articles 52 and 58; FLA Workplace Code (Health, Safety, and Environment benchmark HSE.1)

Root Causes

- i) Risk assessment report is not updated and complete;
- ii) Limited resources in the HSE department. Previously, the HSE department had 5 people, now it only has 3. Consequently, internal monitoring was not implemented well.
- iii) No worker representation or participation in the HSE Committee. All HSE Committee members are either managerial staff or production supervisors.

COMPANY ACTION PLANS

1. 1. In October 2012 we strengthened the visual management. HSE staff classified trash as domestic waste, general waste, and hazardous waste. 2. The factory conducted a new risk assessment in November 2012 to identify environmental risks and has since developed preventive plans. 3. The factory added one more person to the HSE team. HSE staff are trained every year. In addition to training, tests will be conducted to solidify their knowledge. 4. We assigned a member of staff to monitor and train all team leaders and staff on the proper disposal of trash. 5. The department of health and safety assigned a member of staff to conduct inspections once a month and keep in touch with the department supervisors. Each department supervisor is responsible for improving their area in the factory.

Action plan status: Completed

Planned completion date: 12/31/12

Progress update: 08/11/14 : 1. In October 2012 we strengthened the visual management. HSE staff classified trash as domestic waste, general waste, and hazardous waste. 2. The factory conducted a new risk assessment in November 2012 to identify environmental risks and has since developed preventive plans. 3. The factory added one more person to the HSE team. HSE staff are trained every year. In addition to training, tests will be conducted to solidify their knowledge. 4. We assigned a member of staff to monitor and train all team leaders and staff on the proper disposal of trash. 5. The department of health and safety assigned a member of staff to conduct inspections once a month and keep in touch with the department supervisors. Each department supervisor is responsible for improving their area in the factory.

FINDING NO.6

HOURS OF WORK

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Most of the workers worked overtime in excess of the limit of 36 hours per month according to the Labor Law of China.

Local Law or Code Requirement

Labor Law of PRC, Article 41; FLA Workplace Code (Hours of Work benchmark HOW.1)

Root Causes

- i) There are not enough workers in the factory; turnover rate is quite high among migrant workers, who make up half of the workforce;
- ii) Factory conducts production planning based on 60 hours per week, which is indicative of a discrepancy between the local law and the brands' standards.
- iii) Since the basic wage is equal to the legal minimum wage and it is not enough to cover workers' needs, most workers rely on overtime premiums and are willing to work overtime.

COMPANY ACTION PLANS

1. We implemented an independent overtime control program. Work planning is closely linked to and based on the factory's production plan. The goal of this plan is to strictly control worker overtime and ensure that employees get sufficient rest. 2. The factory improved the work efficiency by machine automation, lean production, adjusting the wage structure to reduce overtime, and focusing on using an 8-hour workday more efficiently. Starting in August 2013, the overtime per week will be reduced from 3 hours to 6 hours. We plan to reduce over time to 36 hours per month (or less) by January 2014. 3. We train all the team leaders and workers about hours of work on weekly basis. We make sure that all overtime work is voluntary, and that workers have one day off every week and that workers are getting plenty of rest. Workers now voluntarily sign in for overtime each day. 3. We will survey wages and compensation levels in the industry to create a sustainable improvement in worker satisfaction in an attempt to reduce turnover. Currently, the average monthly turnover rate is around 6.6%; we hope to reduce it to 5% by next year.

Action plan status: In Progress

Planned completion date: 01/31/13

Progress update: 08/11/14 : Starting in August, 2013, the overtime per week will be reduced from 3 hours to 6 hours. We plan to reduce over time to 36 hours per month (or less) by January 2014. Factory is making detail plan on the gradual decrease of overtime.

FINDING NO.7

HEALTH AND SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

- i) Factory did not provide personal protective equipment (PPE) (helmet) for workers working in the warehouse, where goods are stacked higher than 7 meters;
- ii) Factory did not provide PPE (earplugs) for workers operating computerized cutting machines; the noise level reached 83-88 dB (A) in that cutting area.

Local Law or Code Requirement

Law of the PRC on the Prevention and Control of Occupational Diseases, Article 23; Code of Practice for Selection of PPE

Root Causes

- i) Risk assessment report is not updated and complete;
- ii) Limited resources in the HSE department;
- iii) No worker representation or participation in the HSE Committee. All members of HSE Committee are either managerial staff or production supervisors.

Recommendations for Immediate Action

- i) Factory should provide suitable and adequate PPE for workers exposed to hazards (helmets for workers working in warehouse; earplugs for workers working with automatic cutting machines).
- ii) Workers in these positions should be trained on usage, storage, and replacement of PPE.

COMPANY ACTION PLANS

1. We revised the warehouse personnel, goods management procedures in November 2012. The procedures now include a notice that reads "all persons who enter the warehouse are required to wear safety helmets." We also posted warning signs in all exits of warehouse. All staff who enter the warehouse are required to wear helmets.
2. The factory conducted a new risk assessment in November 2012 to identify health & safety risks and developed corresponding preventive plans.
3. The factory's HSE team arranged training for HSE staff in November 2012 to improve their knowledge, detection, and management of all HSE risks.
4. The HSE department started conducting monthly inspections of PPE procedure in all relevant positions.
5. In November 2012 the revised version of the warehouse personnel, goods management procedures was passed during the company executive meeting.
6. In November 2012 we conducted a training on the warehouse personnel, goods management procedures. We included this policy training in 2013 training plan and finished the annual training on this subject in July, 2013.
1. In October 2012 the site was equipped with earplugs, and the persons of security and the department director were in charge of supervising the use of this PPE by staff.
2. The factory conducted a new risk assessment in November 2012 to identify environmental risks and has since developed corresponding preventive plans.
3. The factory's HSE team arranged training for HSE staff in November 2012, to improve their knowledge and skills on detecting and managing potential HSE risks such as noise protection.
4. In November 2012, HSE staff gave training on noise protection to machine operators and their supervisors.
5. The computer cutting machine operators will be given occupational health check every October, starting in 2013.

| | |
|---------------------------------|---|
| Action plan status: | In Progress |
| Planned completion date: | 10/31/13 |
| Progress update: | 08/11/14 : In October 2013, the computer cutting machine operators are scheduled to take an occupational health check to make sure they are protected from noise. |

FINDING NO.8

REVIEW PROCESS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

Factory does not conduct periodic reviews of its policy and procedures across all employment functions.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmarks ER.1.3, ER.30.2, and ER.31.1)

Root Causes

- i) Factory did not see the need to change its current policy and procedures;
- ii) There are no designated personnel with the responsibility of reviewing and updating policies and procedures.

COMPANY ACTION PLANS

1. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employees participated in the creation of these policies through their employee representatives, thus ensuring that these problems are addressed.
2. A member of staff from the HR department will lead the auditing of this policy.

| | |
|----------------------------|-----------|
| Action plan status: | Completed |
| Planned completion | 11/30/12 |

date:

Progress update: 08/11/14 : 1. We established an annual policy and procedure review process to ensure that the policies and procedures are updated in accordance with the factory's needs. Employees participated in the creation of these policies through their employee representatives, thus ensuring that these problems are addressed. 2. A member of staff from the HR department will lead the auditing of this policy.

Completion date: 11/30/12

FINDING NO.9

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

i) Factory did not provide pre-job occupational health examinations for workers working with hazards (e.g., workers cleaning stains, who use chemicals); they are only provided on-the-job occupational health examinations. However, 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;

ii) Some toilets were messy and there was garbage in the female washroom that was not timely cleared away. Janitors clean the toilets 2 times a day.

Local Law or Code Requirement

Law of the PRC on the Prevention and Control of Occupational Diseases, Articles 27 and 36; FLA Workplace Code (Health, Safety, and Environment benchmarks HSE.1 and HSE.19)

Root Causes

i) Risk assessment report is not updated and complete;

ii) Limited resources in the HSE department;

iii) No worker representation or participation in the HSE Committee. All members of the HSE Committee are either management or production supervisors.

Recommendations for Immediate Action

i) Factory is to provide pre-job occupational health examinations for both new workers and existing re-assigned workers who will work with hazards;

ii) The toilets should be cleaned more frequently.

COMPANY ACTION PLANS

1. 1. In March 2013 we arranged pre-job health checks for new, current, and former decontamination workers. 2. The factory conducted a new risk assessment in November 2012 to identify health & safety risks and has since developed corresponding preventive plans. 3. The factory's HSE team arranged training for HSE staff in November 2012 to improve their knowledge, management, and detection of potential HSE risks. 4. The factory increased the number of toilet cleaners to clean toilets in a timely fashion.

Action plan status: Completed

Planned completion date: 03/31/13

Progress update: 08/11/14 : 1. In March 2013 we arranged pre-job health checks for new, current, and former decontamination workers. 2. The factory conducted a new risk assessment in November 2012 to identify environmental risks and has since developed corresponding preventive plans. 3. The factory's HSE team arranged training for HSE staff in November 2012 to improve their knowledge, management, and detection of potential HSE risks. 4. The factory increased the number of toilet cleaners to clean toilets in a timely fashion.

Completion date: 03/31/13

FINDING NO.10

COMPENSATION

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. 1. Employees' wages were calculated according to how many pieces they worked on. The factory ensured that the staff wages were not less than the minimum wage in Suzhou. The factory will compensate workers if workers piece rates are lower than minimum when there is such case. 2.We surveyed industry wages in the Wuzhong area in January 2013. We found that most of the other factories paid wages of RMB2300per month, while other factories paid RMB2400 monthly. Our factory's monthly average wage was RMB2500. 3.The workers can negotiate with the factory about their salary adjustment through union every year. The negotiation increase is around 5%, in addition to the government's annual minimum wage increase.

Action plan status: Completed

Planned completion date: 07/31/13

Progress update: 08/11/14 : 1. Employees' wages were calculated according to how many pieces they worked on. The factory ensured that the staff wages were not less than the minimum wage in Suzhou. The factory will compensate workers if workers piece rates are lower than minimum when there is such case. 2.We surveyed industry wages in the Wuzhong area in January 2013. We found that most of the other factories paid wages of RMB2300per month, while other factories paid RMB2400 monthly. Our factory's monthly average wage was RMB2500. 3.The workers can negotiate with the factory about their salary adjustment through union every year. The negotiation increase is around 5%, in addition to the government's annual minimum wage increase.

Completion date: 07/31/13