



COMPANIES: Fast Retailing Co., Ltd.

COUNTRY: China

ASSESSMENT DATE: 10/12/16

ASSESSOR: Social Compliance Services Asia

PRODUCTS: Apparel

NUMBER OF WORKERS: 500

FLA Comments

Company Comment: This factory was a backup factory for production and there was only one order placed in May 2016. Fast Retailing has no production planned for 2017, and will not be able to pursue remediation for the noncompliances identified in this report. There are currently no other FLA company affiliates sourcing from the factory. Since Fast Retailing accounted for less than one percent of the factory's production capacity, there is no risk of retrenchment due to this exit decision.

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.

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	Violations
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Findings and Action Plans

FINDING NO.1

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Policies & Procedures (Macro)

Finding Explanation

1. The factory does not have written policies on Personnel Development or performance reviews that includes steps and processes, demonstrates linkages to job grading, prohibits discrimination, provides written feedback, and complies with legal requirements.
2. The factory does not have written procedures on Personnel Development, managing performance reviews, managing skill development, and managing promotion, demotion, job reassignment.
3. The factory does not have written policies or procedures on Retrenchment.
4. The factory's Grievance System procedures do not specify how management should handle anonymous grievances or state how workers can submit grievances or questions about Compensation.
5. The factory's Workplace Conduct procedures do not give workers the right to participate and be heard in any disciplinary procedures taken against them. The factory does not have policies or procedures on how to discipline supervisors, managers, and workers who engage in any form of harassment or abuse. Additionally, the factory's disciplinary system does not require that a third party witness be presented during the imposition of disciplinary actions and proper appeal system is in place. At the time of the assessment, no workers had been subject to any kind of disciplinary procedures, only verbal warnings.
6. The factory does not have written policies regarding Environmental Protection. The factory does not have written procedures for managing environmental impact inside the factory or managing the factory's environmental impact to its surroundings.
7. The Health & Safety procedures do not cover following information: How workers can raise health and safety concerns and protection against retaliation for workers who raise health and safety concerns. The factory's procedures do not provide the following information concerning first aid/medical emergency response: what employees should do in case of injury, steps for reporting death, injury, illness, and other health and safety issues.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.25.3, ER.27, ER.28, ER.29.1, ER.30.1, ER.31, and ER.32.1, Compensation Benchmark C.19; Harassment & Abuse Benchmark, H/A.11, Health, Safety, & Environment Benchmark, HSE.1)

FINDING NO.2

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Training (Macro)

Finding Explanation

1. The factory does not provide specific training for the relevant supervisors for any of the Employment Functions.
2. The factory does not provide ongoing training for employees for any of the Employment Functions. In addition, workers do not receive any training material.
3. Workers do not receive written documentation of the information covered during orientation training, including a copy of the workplace rules.
4. The factory does not provide HR staff with training on Workplace Conduct.
5. The factory does not conduct specific workplace safety training to designated employees with special responsibilities.
6. The factory does not have specific training for emergency response employees.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.2, ER.15, ER.17, ER.26, and ER.27.2, Health, Safety, & Environment Benchmark, HSE.5.2)

FINDING NO.3

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Recruitment, Hiring & Personnel Development

Finding Explanation

The factory does not conduct performance reviews for any of its employees, including new employees during their probation period.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.29.1; Non-Discrimination Benchmarks ND.1 and ND.2.1)

FINDING NO.4

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Communication & Worker Involvement (Macro)

Finding Explanation

1. The factory does not communicate its policies and procedures and their updates to the general workforce for any of the Employment Functions.
2. The worker integration component is missing across all Employment Functions. This indicates that the factory has not established procedures to request and/or receive workers' input or feedback regarding the creation, implementation, and updating of its policies and procedures. Workers are neither systematically integrated nor consulted in the decision-making process.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.2, ER.16.1, ER.25.1, ER.26, ER.27.3, ER.29.1.1, ER.30.2, and ER.32.5; Compensation Benchmark C.17)

FINDING NO.5

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Review Process (Macro)

Finding Explanation

The factory does not periodically review and update its policies and procedures for any of the Employment Functions.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks, ER.1.3, ER.29.1.1, ER.30.2 and ER.31.1)

FINDING NO.6

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Compensation

Finding Explanation

1. The final wages for resigned and terminated employees are paid on the 15th of the following month, which is in violation of the legal requirement that total wages shall be paid within three days of resignation or termination.
2. All new workers have a six months probationary period, which is in violation of FLA benchmarks that state that the probation period shall not be longer than three months.
3. The factory has not properly cover social insurance for workers: 57.3% of workers do not have pension insurance. 100% of workers are not covered by medical, unemployment or maternity insurance. According to factory management, all workers have purchased the rural medical insurance themselves, however, no records of this insurance was available.
4. The factory provided workers with incorrect information; they told workers that contributing to the social insurance is optional and at their discretion.
5. The factory does not enroll workers into the required housing provident fund for all of workers.

Local Law or Code Requirement

Regulations of Hebei Province on wage payment (2003), Article 18; PRC Social Insurance Law, Articles 2, 58, and 60; Regulation on the Housing Provident Fund Management (2002), Articles 15, 19 and 20; Regulation on the Housing Provident Fund Management of Hebei Province (2009), Articles 21 and 23; FLA Workplace Code (Employment Relationship Benchmarks ER.19.1 and ER.22; Compensation Benchmark C.1, and C.3)

Recommendations for Immediate Action

1. Ensure that terminated and resigned workers receive their final payment within three days, as required by law.
2. Reduce the probationary period to three months.
3. Provide workers with the legally required social insurance benefits and ensure that contributions are calculated based on workers' actual wages, and not lower than the minimum contribution base that is set out by the insurance bureau.
4. Provide workers with accurate information regarding their legally mandated benefits.

FINDING NO.7

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Hours of Work

Finding Explanation

1. There were discrepancies between time records submitted to the assessors and information gathered from production records and worker interviews. The records provided for the past 12 months did not reflect the workers' actual working hours. Therefore, the assessment team was not able to accurately verify the status of workers' hours during the assessment. Production related records, including daily production records and workshop staff interviews, showed that workers worked on various Saturdays and Sundays, these included March 13, March 20, April 24, May 21, June 4, June 12, July 10, August 13, August 20, August 27, and August 28, 2016; however, the time records showed that those workers were off on these dates. According to factory management, this discrepancy was caused by human error and the production record is not the official daily production record. However, the factory could not provide further evidence or proof, such as relevant official daily production records or CCTV footage, to substantiate their explanation.
2. Monthly overtime exceeded the legal limit of 36 hours for 85% of workers in the months of October 2015 to August 2016. On average, workers worked 50 hours of overtime a month. The maximum number of recorded overtime hours worked was 73 hours in January 2016 for about 60% of workers.
3. The factory does not maintain time records for all resigned production workers, canteen workers or security guards.

Local Law or Code Requirement

Labor Law of PRC (1995), Articles 36, 38, 41, 44 & 48; FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.23; Hours of Work Benchmark HOW.1.1; Compensation Benchmark C.1, C.15, and C.16)

Recommendations for Immediate Action

1. Record working hours properly and accurately and compensate workers properly for all hours worked according to local law.
2. Improve production planning and ensure not to include overtime in the regular production plan. Ensure workers do not work more than the legal limit of 36 hours of overtime per month.
3. Maintain the time records for all resigned production workers, canteen workers and security guards for review.

FINDING NO.8

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Health & Safety

Finding Explanation

1. The factory does not provide appropriate metal-mesh gloves to employees who are handling electric cutters in the cutting workshop.
2. One out of three emergency exits in the cutting workshop is blocked by fabric rolls.
3. The secondary exit in the canteen is blocked by a desk.
4. All the fire extinguishers are inspected every two months instead of every month; the last inspection was June 2016.
5. The factory has not posted any evacuation plans in the workshops.
6. The factory does not keep food samples for 48 hours to minimize the risks of food poisoning, as per local law.
7. The factory does not track all illnesses and there is no tracking system available for illnesses. Factory management reported that not many workers apply for sick leave, so they have overlooked monitoring workers' illness.
8. The factory did not carry out a pre-assessment of occupational disease hazards prior to production and does not have an assessment of the current condition of occupational disease hazards. The factory has been operating at the current location since May 2011.

Local Law or Code Requirement

Law of the People's Republic of China on Production Safety (2002), Article 37; Fire Control Law of the People's Republic of China (2009), Article 16 and 28; Regulation on Fire-safety Management for State Organs, Organizations, Enterprises and Institutional Organizations (2002), Article 26; Regulation on Hygienic of Food Industry and Delivery Unit of Group Meals (2005), Article 35; Interim Measures on Supervision and Management of "Three Simultaneities" for Occupational Health of Construction Projects (2002), Article 10; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.3, HSE.4, HSE.5, HSE.7, and HSE.22)

Recommendations for Immediate Action

1. Provide proper Personal Protective Equipment (PPE) to employees who are handling electric cutters and train them on how to properly use PPE.
2. Clear blocked exits, move any objects away from the emergency exits, and conduct regular inspections.
3. Inspect all fire extinguishers every month.
4. Post evacuation plans in all workshops and conduct regular inspections of these plans.
5. Keep food samples for at least 48 hours and conduct regular inspections to ensure compliance.
6. Arrange for a certified third party to assess occupational health impacts of the factory. Once completed, review and respond to any imminent hazards.

FINDING NO.9

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Compensation

Finding Explanation

1. There were discrepancies between the payment records submitted to the assessors and information gathered from production records and worker interviews. It appeared that the records provided for the past 12 months did not reflect the workers' actual payment status. Therefore, the assessment team was not able to accurately verify the status of workers' wages and benefits status during the assessment.
2. Production related records, including daily production records and workshop staff interviews, showed that workers worked on various Saturdays and Sundays, these included March 13, March 20, April 24, May 21, June 4, June 12, July 10, August 13, August 20, August 27, and August 28, 2016; however, the payment records showed that those workers were off on these dates. According to factory management, this discrepancy was caused by human error and the production record is not the official daily production record. However, the factory could not provide further evidence or proof, such as relevant official daily production records or CCTV footage, to substantiate their explanation.

Local Law or Code Requirement

Labor Law of PRC (1995), Articles 36, 38, 41, 44 & 48; FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.23; Hours of Work Benchmark HOW.1.1; Compensation Benchmark C.1, C.15, and C.16)

Recommendations for Immediate Action

Record working hours properly and accurately and compensate workers properly for all hours worked according to local law.