



**COMPANY: Pou Chen**  
**COUNTRY: China**  
**ASSESSMENT DATE: 11/06/12**  
**MONITOR: FLA Assessor Team (China)**  
**PRODUCTS: Footwear**  
**PROCESSES: Full [= full package]**  
**NUMBER OF WORKERS: 5706**  
**ASSESSMENT NUMBER: AA0000000042**

## **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.

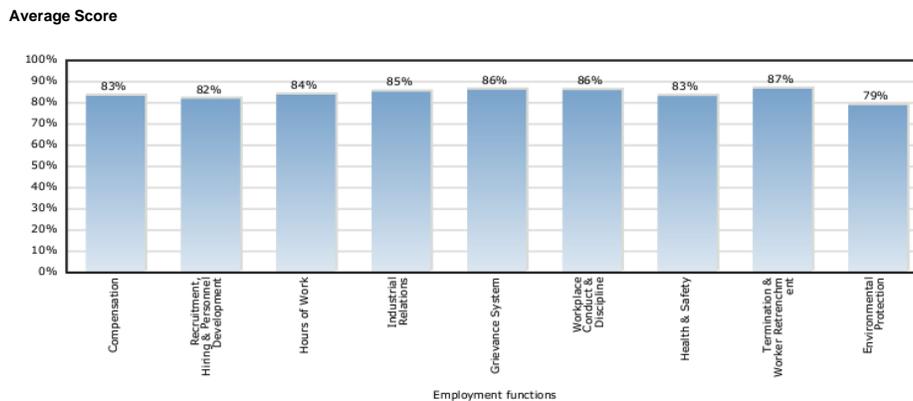
**Local law or Code Requirement**: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

**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).

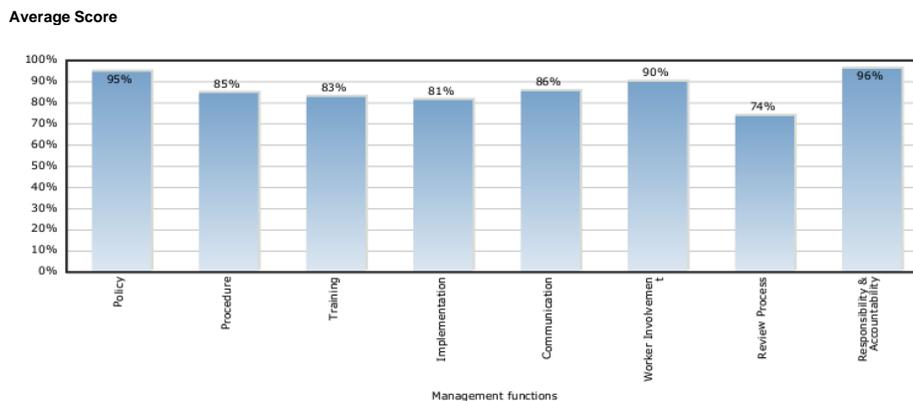
## Score by Employment Function

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
Policy	92.86%	87.5%	100%	100%	100%	90%	100%	83.33%	100%
Procedure	80.3%	82.95%	96.77%	95.83%	90%	91.67%	98.09%	82.58%	67.78%
Responsibility & Accountability	85.74%	100%	100%	100%	100%	100%	100%	100%	100%
Review Process	68.18%	68.18%	78.13%	72.73%	70.83%	68.18%	68.18%	55%	50%
Training	72.32%	82.82%	95.78%	93.33%	94.23%	93.69%	89.92%	84.13%	80.45%
Implementation	88.33%	81.99%	67.77%	76.79%	94.44%	87.04%	86.67%	84.05%	74.59%
Communication	87.5%	95%	83.33%	100%	88.89%	100%	88.89%	75%	52.86%
Worker Involvement	100%	N/A	N/A	100%	100%	N/A	N/A	66.67%	100%

## 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
Harassment and Abuse
Hours of Work
Health, Safety and Environment

## Findings and Action Plans

### FINDING NO.1

#### HEALTH AND SAFETY

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

i) Factory management did not comply with the legal requirement of sending workers exposed to hazards to the authorized hospitals to receive a pre-job health examination. These workers are those exposed to a noise level higher than 85db and others working with chemicals. (Only on-job occupational health examinations are provided).

ii) In Units PYE and S5, sewing machines are not equipped with needle guards.

iii) In Units PYE, S5, C1, and C7, the illumination level ranged from 180 to 260 lux; many production areas did not meet the legal requirements (300 lux).

##### Local Law or Code Requirement

Law of Prevention and Control of Occupational Diseases, PRC, Articles 23 and 36; Standard for Lighting Design of Buildings GB50034-2004, Sheet 5.3.1 Part 6; FLA Workplace Code (Health, Safety and Environment benchmarks HSE.1, HSE.13, and HSE.14)

##### Root Causes

i) The large number of workers working with hazards makes it difficult for the factory to arrange health examinations for eligible workers and to bear the costs.

ii) Internal monitoring on HSE issues is not implemented well by HSE staff.

iii) There are limited resources for the HSE Department to identify health risks for workers and solve them accordingly.

### **Recommendations for Immediate Action**

- i) Factory is to arrange pre-job occupational health examinations for new workers and for those internally transferred to work with hazards.
- ii) Factory is to install proper needle guards for all sewing machines.

## **COMPANY ACTION PLANS**

- 1. The policy about occupational health medical examination is made on the Group level (10/01/2013):
  - 1. Since an employee starts to work for the factory, in 3 months finish pre-job occupational health medical examination
  - 2. Every year regularly finish occupational health medical examination within the timeframe ruled by the company
  - 3. Finish occupational health medical examination when an employee leaves or changes risky job position.

Planned Completion Date:

- 1. By 2014 March, finish occupational health medical examination before and after job.
- 2. By 2014 June, finish employee occupational health medical examination.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	06/30/14
<b>Progress update:</b>	03/30/16 : In 2015, HQ has required pre-job and pre-departure occupational health examinations for workers exposed to hazards. Pre-job occupational health exams will be conducted once workers are assigned to those works with hazards.
<b>Completion date:</b>	10/31/15

- 2. The policy about occupational health medical examination is made on the Group level (10/01/2013):
  - 1. Since an employee starts to work for the factory, in 3 months finish pre-job occupational health medical examination
  - 2. Every year regularly finish occupational health medical examination within the timeframe ruled by the company
  - 3. Finish occupational health medical examination when an employee leaves or changes risky job position.

Planned Completion Date:

- 1. By 2014 March, finish occupational health medical examination before and after job.
- 2. By 2014 June, finish employee occupational health medical examination.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	06/30/14
<b>Progress update:</b>	03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.
<b>Completion date:</b>	05/31/14

- 3. The policy about occupational health medical examination is made on the Group level (10/01/2013):
  - 1. Since an employee starts to work for the factory, in 3 months finish pre-job occupational health medical examination
  - 2. Every year regularly finish occupational health medical examination within the timeframe ruled by the company
  - 3. Finish occupational health medical examination when an employee leaves or changes risky job position.

Planned Completion Date :

- 1. By 2014 March, finish occupational health medical examination before and after job.
- 2. By 2014 June, finish employee occupational health medical examination.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	06/30/14

**Progress update:** 03/30/16 : In 2015, HQ has required pre-job and pre-departure occupational health examinations for workers exposed to hazards. Pre-job occupational health exams will be conducted once workers are assigned to those works with hazards.

**Completion date:** 10/31/15

4.

**Action plan status:** Completed

**Planned completion date:** 10/31/13

**Progress update:** 03/30/16 : Finish installing the needle guards by the end of 2013 October.

**Completion date:** 10/31/13

5. Finish remediation by 11/30.

**Action plan status:** Completed

**Planned completion date:** 11/30/13

**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.

**Completion date:** 05/31/14

6.

**Action plan status:** Completed

**Planned completion date:** 11/30/13

**Progress update:** 03/30/16 : 1. The CSR office specifies the legal requirement of illumination and measures illumination along with the general affairs department to find the areas needing improvement. 2. On the basis of measurement result, the general affairs department implements corresponding remediation in different areas.

**Completion date:** 11/30/13

7. 1. The CSR office specifies the legal requirement of illumination and measures illumination along with the general affairs department to find the areas needing improvement.  
2. On the basis of measurement result, the general affairs department implements corresponding remediation in different areas.

**Action plan status:** Completed

**Planned completion date:** 11/30/13

**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.

**Completion date:** 05/31/14

8.

**Action plan status:** Completed

**Planned completion date:** 06/30/14

**date:**

**Progress update:** 03/30/16 : 1. Specify the legal requirement of illumination. CSR office measures illumination along with the general affairs department to find the areas needing improvement. 2. Implements corresponding remediation in different areas.

**Completion date:** 06/30/14

## FINDING NO.2

### ENVIRONMENTAL PROTECTION

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

It was observed that production wastewater was discharged into the sewage in Units PYE and S5 without either a valid discharge permit or a pre-treatment process before discharging.

##### Local Law or Code Requirement

Water Pollution Prevention and Control Law of the PRC (2008), Article 14; FLA Workplace Code (Health, Safety and Environment benchmarks HSE.1 and HSE.4)

##### Root Causes

i) When these units were first constructed, no production wastewater was envisaged, according to the Environmental Appraisal Report. Now, due to production needs, some laundry and paint spraying machines have been installed, which generate wastewater. Management was not proactive in applying for the permit, as the local government does not strictly require them to do so.

ii) The risk assessment report is not updated; consequently, the risk of wastewater has not been identified.

##### Recommendations for Immediate Action

i) These units are to immediately stop discharging production wastewater into sewage; wastewater should be collected by an authorized treatment plant.

ii) Management is to report wastewater generation to the local environmental bureau in order to obtain the discharge permit.

### COMPANY ACTION PLANS

1.

<b>Action plan status:</b>	Completed
<b>Planned completion date:</b>	10/31/14
<b>Progress update:</b>	03/30/16 : 1. Establish waste water pre-treatment process by 11/30/2013. 2. Finish environmental impact assessment in 02/2014. 3. Finish environmental monitoring in 05/2014. 4. Finish comprehensive inspection for obtaining the permit in 10/2014.
<b>Completion date:</b>	07/24/14

## FINDING NO.3

### HEALTH AND SAFETY

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

i) Units PYE, S5, C1, and C7 did not provide adequate Personal Protective Equipment (PPE) for some workers who were handling hazardous chemicals. For instance, according to relevant Material Safety Data Sheet (MSDS), there should be 4 kinds of PPE (glasses, gloves, masks, and protective clothing) provided for workers handling HB-33 detergent. Based on physical

observation, only gloves and masks were available on site; besides, it was observed that the use of PPE was not implemented well at some production areas.

- ii) Units PYE, S5, C1, and C7 did not maintain the minor and near-miss accident records; they only maintained the accident records which are eligible for work-related injury insurance.
- iii) There was no valid inspection report for 1 air compressor in Unit C1.
- iv) 1 maintenance worker who handled soldering did not have necessary certificate.
- v) Oil containers were stored without second containers in the Banbury workshop of Unit C1 and the warehouse of Unit S5.
- vi) High toxic chemical hardener No. 104 containing 5 – 10% toluene was prohibited by Unit PYE's chemical management policy; however, it was found in use on the Unit PYE production line.

#### **Local Law or Code Requirement**

Law of Prevention and Control of Occupational Diseases, Article 23; Regulations on Safety Supervision over Special Equipment, Article 28, 38, and 39; FLA Workplace Code (Health, Safety and Environment benchmarks HSE.1, HSE.3, HSE.4, HSE.7, HSE.9, and HSE.14)

#### **Root Causes**

- i) The risk assessment is not complete, as some areas of concern regarding PPE are missing.
- ii) Internal monitoring was not implemented well by HSE staff.
- iii) There is limited worker representation and participation in HSE affairs.

#### **Recommendations for Immediate Action**

- i) Factory is to provide suitable and adequate PPE for workers handling chemicals according to MSDS.
- ii) Factory is to maintain all on-site accident records at least for 2 years.
- iii) Factory is to obtain valid inspection report for 1 air compressor in Unit C1.
- iv) The maintenance personnel handling soldering should obtain the relevant certification for performing said tasks.
- v) All oil containers should be stored with second containers in a secure and safe manner.
- vi) Factory is to immediately stop using chemical hardener No. 104 and find a suitable substitute with low hazards.

### **COMPANY ACTION PLANS**

1. To the job positions distribute PPE in accordance with MSDS and provide the employees who are not used to wear PPE more training.

**Action plan status:** Completed

**Planned completion date:** 09/01/13

**Progress update:** 03/30/16 : Finish the distribution of PPE and training as planned.

**Completion date:** 09/01/13

2. 1. To the job positions distribute PPE in accordance with MSDS except protective clothing.
2. The factory creates self-made waterproof apron which on October 20th will be distributed to the employees who need.

**Action plan status:** Completed

**Planned completion date:** 10/20/13

**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.

**Completion date:** 05/31/14

3. To the job positions distribute PPE in accordance with MSDS and provide the employees who are not used to wear PPE more training.

**Action plan status:** Completed

**Planned completion date:** 09/01/13

**Progress update:** 03/30/16 : Finish the distribution of PPE and training as planned.

**Completion date:** 09/01/13

4. 1. The CSR office provides each unit the record forms of first aid kit.
2. The person in charge of first aid kit in each unit records. At the end of each month the CSR office collects and checks the records.

**Action plan status:** Completed

**Planned completion date:** 09/01/13

**Progress update:** 03/30/16 : 1. The CSR office finishes the distribution of record forms and carries out the check.  
2. The record forms include type of accidents, person applied the medicine, job discription while injuries, emergency medicine used situation and the medicine checklist.

**Completion date:** 09/01/13

5. 1. The CSR office provides each unit the record forms of first aid kit.
2. The person in charge of first aid kit in each unit records. At the end of each month the CSR office collects and checks the records.

**Action plan status:** Completed

**Planned completion date:** 09/01/13

**Progress update:** 03/30/16 : The CSR office finishes the distribution of record forms and carries out the check. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 09/01/13

6. 1. The CSR office provides each unit the record forms of first aid kit.
2. The person in charge of first aid kit in each unit records. At the end of each month the CSR office collects and checks the records.

**Action plan status:** Completed

**Planned completion date:** 09/01/13

**Progress update:** 03/30/16 : 1. The CSR office finishes the distribution of record forms and carries out the check.  
2. The record forms include type of accidents, person applied the medicine, job discription while injuries, emergency medicine used situation and the medicine checklist.

**Completion date:** 09/01/13

7. 1. Stop using the air compressor.
2. Make an inventory of special equipment.

**Action plan status:** Completed

**Planned completion date:** 12/01/12

**Progress update:** 03/30/16 : 1. The air compressor is no longer being used. 2. In May 2013 an inventory of

special equipment was made.

**Completion date:** 12/01/12

8. For the certificate of maintenance worker, a list is created for the application for training of government. Wait for the schedule arranged by government.

**Action plan status:** Completed

**Planned completion date:** 03/31/14

**Progress update:** 03/30/16 : 1. All workers handling soldering got certificates from government before February in 2014. 2. In the future, workers are not allowed to engage in soldering work before obtaining the certificate.

**Completion date:** 02/01/14

9. Place the secondary containers.

**Action plan status:** Completed

**Planned completion date:** 06/01/13

**Progress update:** 03/30/16 : The secondary containers are in place. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 06/01/13

10. Place the secondary containers.

**Action plan status:** Completed

**Planned completion date:** 06/01/13

**Progress update:** 03/30/16 : The secondary containers are in place.

**Completion date:** 06/01/13

11. 1. Replace Chemical hardener No. 104.

2. Integrate the overall purchase of chemicals into PYE's Operating Instructions for Management of Hazardous Chemicals.

**Action plan status:** Completed

**Planned completion date:** 11/30/12

**Progress update:** 03/30/16 : Chemical hardener No. 104 has been replaced with hardener RFE since the day of SCI assessment. The overall purchase of chemicals is integrated into PYE's Operating Instructions for Management of Hazardous Chemicals.

**Completion date:** 11/30/12

## FINDING NO.4

### INDUSTRIAL RELATIONS

**FINDING TYPE:** Sustainable Improvement Required

## **Finding Explanation**

- i) Factory management automatically enrolls workers in the trade union upon completion of their probation period (3 months), based on the Constitution of Yue Yuen Trade Union. There is no written application from employees expressing their consent for joining the trade union. In addition, from worker interviews, it was noted that 90% of workers interviewed are unaware that they are members of the trade union.
- ii) The chairman and committee members of the trade union were not freely elected by workers; some committee members' positions were filled by management.
- iii) Copies of current collective bargaining agreement (CBA) are not provided to the workers. Based on interviews, workers did not know that there is a collective bargaining agreement.

## **Local Law or Code Requirement**

Constitution of Chinese Trade Unions, Article 10; FLA Workplace Code (Freedom of Association benchmarks FOA.2, FOA.10 and FOA.11; Employment Relationship benchmark ER.16.2)

## **Root Causes**

- i) 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) It is a common practice in factories in China to automatically enroll workers into the existing official union.
- iii) Factory management is not aware of the benefits of worker representation in the Trade Union Committee.
- iv) The factory did not allow for the free election of union members, as decisions were considered more efficiently carried out by top management.
- v) Factory management is not aware of FLA's Code of Conduct related to CBA and does not think it is necessary to provide copies of the CBA to employees. It is not a legal requirement in China to provide workers with a copy of the CBA.

## **COMPANY ACTION PLANS**

1. 1. Survey the trade union membership.
2. Give employees trade union membership application forms when they sign contracts. They can fill out the forms at will.
3. Amend trade union charter. Employees who are willing to join the trade union must fill out application forms.

**Action plan status:** Completed

**Planned completion date:** 10/18/13

**Progress update:** 03/30/16 : 1. The trade union membership survey was complete on 05/20. 2. From 06 / 01 onwards give employees trade union membership application forms when they sign contracts. They can fill out the forms at will. 3. Amend trade union charter by 10/18/2013. Employees who are willing to join the trade union must fill out application forms.

**Completion date:** 10/18/13

2. 1. Survey the trade union membership.
2. Give employees trade union membership application forms when they sign contracts. They can fill out the forms at will.
3. Amend trade union charter. Employees who are willing to join the trade union must fill out application forms.

**Action plan status:** Completed

**Planned**

**completion date:** 10/18/13

**Progress update:** 03/30/16 : 1. The trade union membership survey was complete on 05/20. 2. From 06 / 01 onwards give employees trade union membership application forms when they sign contracts. They can fill out the forms at will. 3. Amend trade union charter by 10/18/2013. Employees who are willing to join the trade union must fill out application forms. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 10/18/13

3. 1. Survey the trade union membership.
2. Give employees trade union membership application forms when they sign contracts. They can fill out the forms at will.
3. Amend trade union charter. Employees who are willing to join the trade union must fill out application forms.

**Action plan status:** Completed

**Planned completion date:** 10/18/13

**Progress update:** 03/30/16 : 1. The trade union membership survey was complete on 05/20. 2. From 06 / 01 onwards give employees trade union membership application forms when they sign contracts. They can fill out the forms at will. 3. Amend trade union charter by 10/18/2013. Employees who are willing to join the trade union must fill out application forms.

**Completion date:** 10/18/13

4. Elect the chairman and committee members of the trade union.

**Action plan status:** Completed

**Planned completion date:** 04/19/13

**Progress update:** 03/30/16 : 1. In 2016, the rate of employees joining trade union has reached 100%. 2. Since the branch chairman of union in this factory who was elected by 2013 had resigned. The chairman and vice chairman election which followed the constitution of the trade union has been held in 2016 : Firstly, employees voted for the representative of trade union. Secondly, employees elected the committee members of the trade union among the trade union representatives. Finally, the chairman and vice chairman were elected from committee members of the trade union.

**Completion date:** 03/15/16

5. Elect the chairman and committee members of the trade union.

**Action plan status:** Completed

**Planned completion date:** 06/18/13

**Progress update:** 03/30/16 : The chairman and committee members of the trade union were elected on 06/18. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 06/18/13

6. Elect the chairman and committee members of the trade union.

**Action plan status:** Completed

**Planned completion date:** 06/08/14

**Progress update:** 03/30/16 : 1. The chairman and committee members of the trade union were elected on 06/08/2014. 2. The branch chairman and vice chairman election in this factory in 2014 followed the constitution of the trade union : Firstly, employees voted for the representative of trade union. Secondly, employees elected the committee members of the trade union among the trade union representatives. Finally, the chairman and vice chairman were elected from committee members of the trade union. 3. In 2016, the rate of employees joining trade union has reached 80%.

**Completion date:** 06/08/14

7. Provide copies of collective bargaining agreement (CBA) to every employee.

**Action plan status:** Completed

**Planned completion date:** 05/31/13

**Progress update:** 03/30/16 : Copies of collective bargaining agreement (CBA) were provided to every employee.

**Completion date:** 05/31/13

8. Provide copies of collective bargaining agreement (CBA) to every employee.

**Action plan status:** Completed

**Planned completion date:** 09/30/13

**Progress update:** 03/30/16 : Copies of collective bargaining agreement (CBA) were provided to every employee. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 09/30/13

9. Provide copies of collective bargaining agreement (CBA) to every employee.

**Action plan status:** Completed

**Planned completion date:** 05/31/13

**Progress update:** 03/30/16 : Copies of collective bargaining agreement (CBA) were provided to every employee.

**Completion date:** 05/31/13

## FINDING NO.5

### RECRUITMENT, HIRING AND PERSONNEL DEVELOPMENT

**FINDING TYPE:** Sustainable Improvement Required

#### **Finding Explanation**

i) The employment contracts of workers a) handling chemicals and b) exposed to high levels of noise, do not specify the potential health and safety risks they might face, as required by law. In fact, all workers receive the same contract as a "production worker."

ii) There is no performance review system to ensure the fair and transparent promotion of workers.

iii) Management is not making adequate efforts for workers to understand the fringe benefits package: a) it was observed that there was limited coverage on social insurance and annual leave during orientation training and b) during worker interviews, 85% of workers could not tell what types of social insurance are covered by the factory and 79% did not know that they are entitled to take annual leave, since it is usually provided at the same time for all workers and combined with national holidays.

**Local Law or Code Requirement**

Labor Law of the PRC, Article 19; Law of Employment Contracts of the PRC, Article 17; Law of the PRC on the Prevention and Control of Occupational Diseases, Article 34; FLA Workplace Code (Employment Relationship benchmarks ER.15 and ER.30; Compensation benchmark C.17)

**Root Causes**

i) Factory is used to adopting the fixed employment contract template, which is not customized for workers exposed to hazards.

ii) The effectiveness of orientation training was not measured and workers' knowledge on wages and benefits is not strengthened through ongoing training.

iii) The factory is not aware of FLA's code and benchmarks related to personal development.

**Recommendations for Immediate Action**

**COMPANY ACTION PLANS**

1. Administrative center HR distributes notification of job hazard to each factory for implementation.

**Action plan status:** Completed  
**Planned completion date:** 11/30/13  
**Progress update:** 03/30/16 : 1. Since 2013 onwards , the potential health and safety risks that workers exposed to hazards might face have been specified in the employment contracts. 2. HR has communicated these hazards to the workers during new workers' orientation training.  
**Completion date:** 11/30/13

2. Administrative center HR distributes notification of job hazard to each factory for implementation.

**Action plan status:** Completed  
**Planned completion date:** 12/31/13  
**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.  
**Completion date:** 05/31/14

3. Administrative center HR distributes notification of job hazard to each factory for implementation.

**Action plan status:** Completed  
**Planned completion date:** 03/31/14  
**Progress update:** 03/30/16 : 1. Since March 1st of 2014, the potential health and safety risks that workers exposed to hazards might face have been specified in the employment contracts. 2. HR has communicated these hazards to the workers during new new workers' orientation training.  
**Completion date:** 03/01/14

1. From the second half of 2013 onwards deputy section chief and the positions which are higher than it are integrated into the performance appraisal system.
2. In 2015 elaborate the program connecting performance appraisal to promotion system.
3. From 2016 onwards implement connection between performance appraisal and promotion system for section chief and the positions which are higher than it. Constantly implement training about compensation and benefits for (new) employees, and conduct test after training.

**Action plan status:** Completed

**Planned completion date:** 12/31/16

**Progress update:** 03/30/16 : The connection between performance appraisal and promotion system for section chief and the positions higher has been implemented since 2016.

**Completion date:** 01/15/16

1. From the second half of 2013 onwards deputy section chief and the positions which are higher than it are integrated into the performance appraisal system.
2. In 2015 elaborate the program connecting performance appraisal to promotion system.
3. From 2016 onwards implement connection between performance appraisal and promotion system for section chief and the positions which are higher than it. Constantly implement training about compensation and benefits for (new) employees, and conduct test after training.

**Action plan status:** Completed

**Planned completion date:** 12/31/16

**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.

**Completion date:** 05/31/14

1. From the second half of 2013 onwards deputy section chief and the positions which are higher than it are integrated into the performance appraisal system.
2. In 2015 elaborate the program connecting performance appraisal to promotion system.
3. From 2016 onwards implement connection between performance appraisal and promotion system for section chief and the positions which are higher than it. Constantly implement training about compensation and benefits for (new) employees, and conduct test after training.

**Action plan status:** Completed

**Planned completion date:** 12/31/16

**Progress update:** 03/30/16 : The connection between performance appraisal and promotion system for section chief and the positions higher has been implemented since 2016.

**Completion date:** 01/15/16

1. Implement training about compensation and benefits.
2. Conduct FLA training for the management and the supervisors.

**Action plan status:** Completed

**Planned completion date:** 10/05/13

**Progress update:** 03/30/16 : 1. Constantly implement training about compensation and benefits. 2. Conduct FLA training for the management and the supervisors on 09/21.

**Completion date:** 10/05/13

1. Constantly implement training about compensation, annual leave, and benefits.
2. In the first half of 2013 explain benefits, annual leave, and social insurance to everyone in the morning assembly.

3. Give more explanations of benefits, annual leave, and social insurance to new employees.
4. Paste FLA COC
5. On 10/07 conduct training about employment knowledge for deputy section chiefs and the positions which are higher than it
6. In October conduct training about employment knowledge for supervisors.

**Action plan status:** Completed

**Planned completion date:** 10/31/13

**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.

**Completion date:** 05/31/14

9. 1. Implement training about compensation and benefits.
2. Training about the FLA.

**Action plan status:** Completed

**Planned completion date:** 06/10/13

**Progress update:** 03/30/16 : 1. Constantly implement training about compensation and benefits. 2. Regular training about the FLA

**Completion date:** 06/10/13

## FINDING NO.6

### WORKPLACE CONDUCT AND DISCIPLINE

#### FINDING TYPE: Sustainable Improvement Required

##### Finding Explanation

- i) It was observed that disciplinary records are not kept in worker's personnel files.
- ii) In 1 factory of the compound (PY1-C7), management used monetary penalties as a means to ensure workers' production performance. For instance, if a worker's defect rate exceeds 1%, the worker will be deducted 3 times the piece rate wage.

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship benchmark ER. 27.3; Health, Safety and Environment benchmark HSE.15; Harassment or Abuse benchmark H/A. 2)

##### Root Causes

- i) Management finds it easier to file disciplinary action records altogether, as opposed to filing separately for each worker.
- ii) The factory is not aware of FLA's code and benchmarks related to monetary penalties.
- iii) In factory management's opinion, this kind of monetary penalty is more effective to ensure a worker's proper production performance.

##### Recommendations for Immediate Action

Factory management is to stop the practice of monetary penalties.

### COMPANY ACTION PLANS

1.

**Action plan status:** Completed

**Planned completion date:** 11/30/13

**Progress update:** 03/30/16 : The disciplinary records are put in the workers' personnel files.

**Completion date:** 11/30/13

2. The disciplinary records are put in the workers' personnel files.

**Action plan status:** Completed

**Planned completion date:** 11/30/13

**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.

**Completion date:** 05/31/14

3.

**Action plan status:** Completed

**Planned completion date:** 11/30/13

**Progress update:** 03/30/16 : The disciplinary records are put in the workers' personnel files.

**Completion date:** 11/30/13

4. Change the regulation and paste the policy of no monetary penalty.

**Action plan status:** Completed

**Planned completion date:** 05/31/13

**Progress update:** 03/30/16 : 1. Finish changing the regulation and pasting the policy of no monetary penalty. 2. Eliminate the practice of monetary penalty. Factory does not allow any form of monetary penalty to be imposed on employees. HR communicates the updated policy to the workers, and combines the updated policy into the training courses for new and on-going employees.

**Completion date:** 05/31/13

## FINDING NO.7

### HOURS OF WORK

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

i) In peak seasons, workers worked for more than 60 hours per week and did not receive a rest day in every consecutive 7-day period. It affected 60 to 74 percent of workers with longest working time up to 71 hours per week.

ii) The time record for overtime does not demonstrate actual hours worked beyond 60 per week. In C7 factory, hours worked per week beyond 60 was recorded elsewhere and paid as "other additional bonus." These additional records were provided for review by management.

iii) The factory does not take workers' seniority into consideration in determining the number of days of annual leave workers are entitled as required by law. Document review and worker interviews found that workers did not receive annual leave during the first year after they joined the factory.

##### Local Law or Code Requirement

Labor Law of PRC, Article 41; Paid Annual Leave Regulation (2007), Article 5; Implementation Measures of Employees' Paid Annual Leave (2008), Article 5; FLA Workplace Code (Hours of Work benchmarks HOW.1, HOW.2, HOW.3, and HOW.11)

##### Root Causes

i) During peak seasons, factory management accepted production orders beyond regular production capacity without hiring more workers in order to save on labor cost.

ii) Factory hid the excessive overtime in the time records to be able to pass audits.

iii) Workers rely on overtime premiums for higher earnings.

iv) Human Resources Department has not fully understood the legal requirements for annual leave. The issue was not pointed out during previous assessments/audits.

### **Recommendations for Immediate Action**

Factory is to make sure that workers a) weekly working hours do not exceed 60 hours/week and b) receive at least 1 day off in every 7-day period.

## **COMPANY ACTION PLANS**

1. No more than 60 hours as weekly working hours

**Action plan status:** Completed

**Planned completion date:** 03/31/13

**Progress update:** 03/30/16 : From April 2013 onwards no more than 60 hours as weekly working hours. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 03/31/13

2. No more than 60 hours as weekly working hours

**Action plan status:** Completed

**Planned completion date:** 03/31/13

**Progress update:** 03/30/16 : 1. From April 2013 onwards no more than 60 hours as weekly working hours. 2. In PYE, the weekly working hours always have been less than 60 hours.

**Completion date:** 03/31/13

- 3.

**Action plan status:** Completed

**Planned completion date:** 11/30/13

**Progress update:** 03/30/16 : Accurately record overtime, and calculate overtime pay accordingly.

**Completion date:** 11/30/13

4. In accordance with the relevant regulation in new employee manual, employees are entitled to annual leaves on the basis of their seniority. The employees must provide the pertinent proofs of service (e.g. social insurance) to calculate the lengths of their annual leaves on the basis of their seniority.

**Action plan status:** Completed

**Planned completion date:** 03/31/14

**Progress update:** 03/30/16 : 1. Since August 1st of 2015, employees could arrange their annual leave as the action plan. Still, the factory combined the new policy into the training courses for new and on-going employees. Besides, every employees received an employee handbook to make sure every employees were on the same page. 2. About the annual leave issue for the first-year-workers, following the group regulation, every new worker shall provide their pertinent proofs of service (e.g. social insurance) for company to calculate the lengths of their annual leaves on the basis of their seniority within three months since they came to work. That is to say, for the issue of annual leave in the first-year-work, employees can receive annual leave in the first-year-work if they can provide proofs of their previous employment.

**Completion date:** 08/01/15

5. In accordance with the relevant regulation in new employee manual, employees are entitled to annual leaves on the basis of their seniority. The employees must provide the pertinent proofs of service (e.g. social insurance) to calculate the lengths of their annual leaves on the basis of their seniority.

**Action plan status:** Completed

**Planned completion date:** 03/31/14

**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.

**Completion date:** 05/31/14

6. In accordance with the relevant regulation in new employee manual, employees are entitled to annual leaves on the basis of their seniority. The employees must provide the pertinent proofs of service (e.g. social insurance) to calculate the lengths of their annual leaves on the basis of their seniority.

**Action plan status:** Completed

**Planned completion date:** 03/31/14

**Progress update:** 03/30/16 : 1. Since August 1st of 2015, employees could arrange their annual leave as the action plan. Still, the factory combined the new policy into the training courses for new and on-going employees. Besides, every employees received an employee handbook to make sure every employees were on the same page. 2. About the annual leave issue for the first-year-workers, following the group regulation, every new worker shall provide their pertinent proofs of service (e.g. social insurance) for company to calculate the lengths of their annual leaves on the basis of their seniority within three months since they came to work. That is to say, for the issue of annual leave in the first-year-work, employees can receive annual leave in the first-year-work if they can provide proofs of their previous employment.

**Completion date:** 08/01/15

## FINDING NO.8

### COMPENSATION

#### FINDING TYPE: Sustainable Improvement Required

##### Finding Explanation

i) The factory has not paid for the social insurance of all workers. The percentage of insured workers is between 60 – 90% in Units PYE, S5, C1, and C7. The types of social insurance that fall short of full coverage are: unemployment, maternity, medical and pension insurance.

ii) In Unit C7, the payroll records were not kept accurately; the compensation for overtime exceeding 60 hours per week was not shown in the payroll.

iii) Factory did not make reasonable efforts to ensure workers understand their wages. For instance, the scheme of "other additional bonus" in the payroll included more than 5 different types of bonuses and was calculated altogether, which was hard for workers to understand.

iv) Discriminative actions have been observed against workers in C7 with respect to night shift allowances and ergonomic breaks. Workers receive a higher amount for night shift allowance in C1 as compared to C7. They also have a 15-minute break with free snacks in the afternoon, while C7 workers do not have such a break. The same management manages the 2 production units.

### **Local Law or Code Requirement**

Social Insurance Law of PRC, Article 58; FLA Workplace Code (Compensation benchmark C.17, Nondiscrimination benchmark ND.3)

### **Root Causes**

- i) The factory considers social insurance payments too costly. The local labor bureau does not strictly control the factory's practice of paying all workers' social insurance.
- ii) Trainings on compensation for both workers and HR staff do not include a comprehensive explanation of the factory's bonus structure.
- iii) As tasks performed in C1 building generate more revenue, employees working at this facility receive additional benefits that other workers do not.
- iv) Since FLA affiliate (factory's parent company) has newly joined the FLA, factory management has not yet fully understood and adopted FLA's workplace code and benchmark requirements .

### **Recommendations for Immediate Action**

## **COMPANY ACTION PLANS**

1.
  - Action plan status:** Completed
  - Planned completion date:** 07/31/14
  - Progress update:** 03/30/16 : The percentage of insured workers will be 100% no later than 07/31/2014.
  - Completion date:** 05/01/14
  
2. The percentage of insured workers will be 100% by the end of 2014.
  - Action plan status:** Completed
  - Planned completion date:** 12/31/14
  - Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.
  - Completion date:** 05/31/14
  
3.
  - Action plan status:** Completed
  - Planned completion date:** 07/31/14
  - Progress update:** 03/30/16 : The percentage of insured workers will be 100% no later than 07/31/2014.
  - Completion date:** 05/01/14
  
4. Give overtime pay as legally required. IE calculates the salary, and HR records the daily attendance. Stop categorizing overtime pay as "other additional bonus" on the salary slips.
  - Action plan status:** Completed
  - Planned completion date:** 12/01/12
  - Progress update:** 03/30/16 : Overtime pay is no longer categorized as "other additional bonus" on the salary slips.
  - Completion date:** 12/01/12
  
5. Periodically provide training about compensation to help the employees understand the wage structure.

**Action plan status:** Completed  
**Planned completion date:** 06/10/13  
**Progress update:** 03/30/16 : Training about compensation is regularly provided.  
**Completion date:** 06/10/13

6. PY1-C7 stopped production since 07/15.

**Action plan status:** Completed  
**Planned completion date:** 07/15/13  
**Progress update:** 03/30/16 : PY1-C7 stopped production since 07/15.  
**Completion date:** 07/15/13

## FINDING NO.9

### HEALTH AND SAFETY

#### FINDING TYPE: Sustainable Improvement Required

##### Finding Explanation

- i) Workers did not receive training in ergonomics in the factory; while work might require lifting heavy items, the related workers were not trained on proper lifting techniques.
- ii) Around 10% of workers were not provided chairs; most chairs on the production sites do not have proper backrests to support workers' lower back. Also, no chair was provided to workers (e.g., the vulcanization area). Most workers cannot sit down when they want to take a break.

##### Local Law or Code Requirement

FLA Workplace Code (Health, Safety and Environment benchmark HSE.17)

##### Root Causes

- i) Lack of management awareness on FLA workplace code and benchmarks concerning ergonomics.
- ii) Management did not recognize the benefits of ergonomic improvements, such as increasing productivity and attendance levels, while reducing risk of worker accidents and Musculoskeletal Disorder (MSDs).
- iii) Providing ergonomically designed chairs for all of the workforce means high additional costs for management

### COMPANY ACTION PLANS

1. Conduct training in ergonomics and paste the relevant pictures on the walls of shop floor.

**Action plan status:** Completed  
**Planned completion date:** 09/20/13  
**Progress update:** 03/30/16 : Finish training in ergonomics. The relevant pictures can be seen on the walls of shop floor.  
**Completion date:** 09/20/13

2. Finish training in ergonomics by the end of November.

**Action plan status:** Completed  
**Planned completion date:** 11/30/13  
**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.  
**Completion date:** 05/31/14

3. Conduct training in ergonomics and paste the relevant pictures on the walls of shop floor.

**Action plan status:** Completed

**Planned completion date:** 05/31/13

**Progress update:** 03/30/16 : Finish training in ergonomics. The relevant pictures can be seen on the walls of shop floor.

**Completion date:** 05/31/13

4.

**Action plan status:** Completed

**Planned completion date:** 03/31/14

**Progress update:** 03/30/16 : 1. Finish giving 70% of chairs in sewing, assembling, and stockfitting areas backrests, and more will take place. 2. Cutting area on 1st floor of A building and 1st floor of B building has new break area with 500 chairs for the employees to rest.

**Completion date:** 12/31/13

5. 1. Survey the production positions without chair by 09/30.

2. Give the chairs of pregnant employees backrests by 10/10.

3. Give a chair to each production position without chair by 11/16

4. The office of each shop floor will have 15 chairs with backrests by 11/30. The employees can take the chairs with backrests when needed, and the factory will increase the number if the employees need.

**Action plan status:** Completed

**Planned completion date:** 11/30/13

**Progress update:** 03/30/16 : PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.

**Completion date:** 05/31/14

6.

**Action plan status:** Completed

**Planned completion date:** 12/31/13

**Progress update:** 03/30/16 : There will be iron chairs with backrests near the vulcanization area.

**Completion date:** 10/31/13

## FINDING NO.10

### FOOD AND WATER QUALITY

#### FINDING TYPE: Immediate Action Required

##### Finding Explanation

i) As the water provided by the factory tasted salty in certain months of the year due to salt tide and the water dispensers were installed far from workstations, many workers pay for purified drinking water that they order from outside,

ii) Food provided by the canteen was not served in a safe and sanitary manner, as workers are responsible for serving and

picking their own rice and soup.

iii) All Food Hygiene Permits of the canteen have expired.

### **Local Law or Code Requirement**

FLA Workplace Code (Health, Safety and Environment benchmarks HSE.4, HSE.22, and HSE.23)

### **Root Causes**

- i) Providing purified water for workers means additional costs that factory management wants to avoid.
- ii) Factory management does not strictly monitor the canteen's operations.
- iii) There is a lack of worker participation in the factory's decision-making on food and canteen service.

### **Recommendations for Immediate Action**

Factory is to obtain updated Food Hygiene Permits for the canteens.

## **COMPANY ACTION PLANS**

- 1. 1. The administrative center monitors water quality every season.
- 2. Around the water dispensers paste water quality testing reports and slogans about qualified water.
- 3. Regular filter replacement

**Action plan status:** Completed

**Planned completion date:** 09/30/13

**Progress update:** 03/30/16 : 1. Seasonal monitoring proceeds. 2. Quality testing reports and slogans are visible. 3. Regular filter replacement takes place.

**Completion date:** 09/30/13

- 2. 1. The administrative center monitors water quality every season.
- 2. Around the water dispensers paste water quality testing reports and slogans about qualified water.
- 3. Regular filter replacement

**Action plan status:** Completed

**Planned completion date:** 09/30/13

**Progress update:** 03/30/16 : 1. Seasonal monitoring proceeds. 2. Quality testing reports and slogans are visible. 3. Regular filter replacement takes place. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 09/30/13

- 3. 1. The administrative center monitors water quality every season.
- 2. Around the water dispensers paste water quality testing reports and slogans about qualified water.
- 3. Regular filter replacement

**Action plan status:** Completed

**Planned completion date:** 09/30/13

**Progress update:** 03/30/16 : 1. Seasonal monitoring proceeds. 2. Quality testing reports and slogans are visible. 3. Regular filter replacement takes place.

**Completion date:** 09/30/13

- 4. Conduct canteen internal assessment.

**Action plan status:** Completed

**Planned completion date:** 06/30/13

**Progress update:** 03/30/16 : Finish canteen internal assessment.

**Completion date:** 06/30/13

5.

**Action plan status:** Completed

**Planned completion date:** 01/31/14

**Progress update:** 03/30/16 : The inspection is complete, and before 01/31/2014 Food Hygiene Permit of the canteen will be renewed.

**Completion date:** 10/31/13

6. Renew Food Hygiene Permit of the canteen.

**Action plan status:** Completed

**Planned completion date:** 12/01/12

**Progress update:** 03/30/16 : Food Hygiene Permit of the canteen was renewed in December 2012. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 12/01/12

7.

**Action plan status:** Completed

**Planned completion date:** 01/31/14

**Progress update:** 03/30/16 : The inspection by Food and Drug Administration will be on October 25th, and before 01/31/2014 Food Hygiene Permit of the canteen will be renewed if it passes inspection.

**Completion date:** 10/25/13

## FINDING NO.11

### COMPENSATION

#### FINDING TYPE: Uncorroborated Risk of Non Compliance

##### Finding Explanation

1. Based on worker interviews, their salary is not enough to cover all of their basic needs and provide a discretionary income. (FLA Comment: The assessment methodology in use by the FLA at the time of this assessment did not involve collection of compensation data nor specific benchmarks against which to measure the adequacy of compensation received by the workers. Fair Compensation findings were based solely on worker interviews/perception and are therefore not actionable for remediation purposes. In 2015, the FLA launched its Fair Compensation Work Plan which requires the collection and benchmarking of compensation data.)

##### Local Law or Code Requirement

FLA Workplace Code (Compensation benchmark C.1.3)

##### Root Causes

- i) The Chinese footwear 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. Ensure that the employees receive legal minimum wage.
2. At irregular intervals, make wage comparable to wages in similar enterprises in the same sector and adjust consequently.
3. Working hour control policy on the Group level: working for more than 60 hours in one week becomes the special case requiring approval of the board.
4. Give overtime pay as legally required.
5. Paste template of salary slip on the bulletin and explain wage structure to employees at irregular intervals.
6. Ensure equal pay for equal work, and avoid wage discrimination.

**Action plan status:** Completed

**Planned completion date:** 09/30/13

**Progress update:** 03/30/16 : 1. The relevant policy is acknowledged on the Group level. 2. In 2015, the average wage in the factory was \$ 3,141 which exceeded the average wage in Dongguan (2,451). 3. HQ conducts ESS surveys which includes the satisfaction level on wage, job-itself, working environment, fringe benefits, working hours, management attitude, grievance system, communication, food, and clinic. In 2015, the satisfaction level of wage ranked the third highest among the 10 categories.

**Completion date:** 09/30/13

2. 1. Ensure that the employees receive legal minimum wage.
2. At irregular intervals, make wage comparable to wages in similar enterprises in the same sector and adjust consequently.
3. Working hour control policy on the Group level: working for more than 60 hours in one week becomes the special case requiring approval of the board.
4. Give overtime pay as legally required.
5. Paste template of salary slip on the bulletin and explain wage structure to employees at irregular intervals.
6. Ensure equal pay for equal work, and avoid wage discrimination.

**Action plan status:** Completed

**Planned completion date:** 09/30/13

**Progress update:** 03/30/16 : The relevant policy is acknowledged on the Group level. (PY1-S5 stopped production since May, 2014. While the rest of factories in the San Xiang factory compound still remain in production.)

**Completion date:** 09/30/13

3. 1. Ensure that the employees receive legal minimum wage.
2. At irregular intervals, make wage comparable to wages in similar enterprises in the same sector and adjust consequently.
3. Working hour control policy on the Group level: working for more than 60 hours in one week becomes the special case requiring approval of the board.
4. Give overtime pay as legally required.
5. Paste template of salary slip on the bulletin and explain wage structure to employees at irregular intervals.
6. Ensure equal pay for equal work, and avoid wage discrimination.

**Action plan status:** Completed

**Planned completion date:** 09/30/13

**Progress update:** 03/30/16 : 1. The relevant policy is acknowledged on the Group level. 2. In 2015, the average wage in the factory was \$ 4,446 which exceeded the average wage in Dongguan (2,451). 3. HQ conducts ESS surveys which includes the satisfaction level on wage, job-itself, working environment, fringe benefits, working hours, management attitude, grievance system, communication, food, and clinic. In 2015, the satisfaction level of wage ranked the highest among

the 10 categories.

**Completion  
date:**

09/30/13