



COMPANY: Pou Chen
COUNTRY: China
ASSESSMENT DATE: 08/27/13
MONITOR: FLA Assessor Team (China)
PRODUCTS: Footwear
PROCESSES: Cut, Sew, Full [= full package], Inspection/QC
NUMBER OF WORKERS: 15468
NUMBER OF WORKERS INTERVIEWED:
ASSESSMENT NUMBER: AA0000000316

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Understanding this Assessment Report

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

Finding type

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

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

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

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

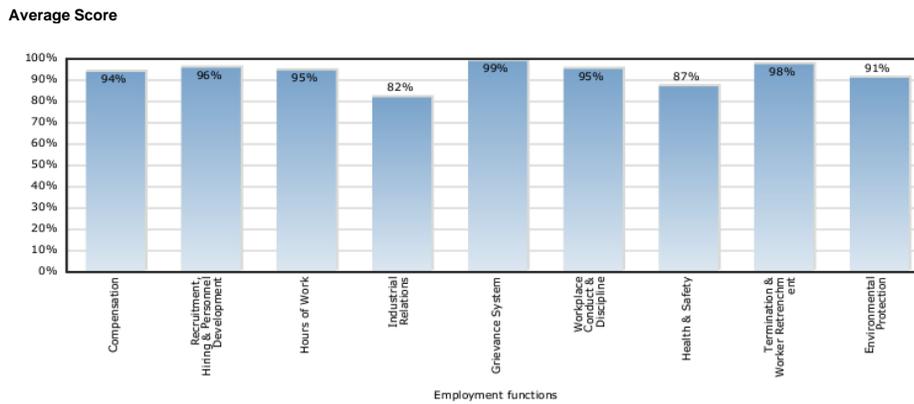
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that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

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

Factory Profile

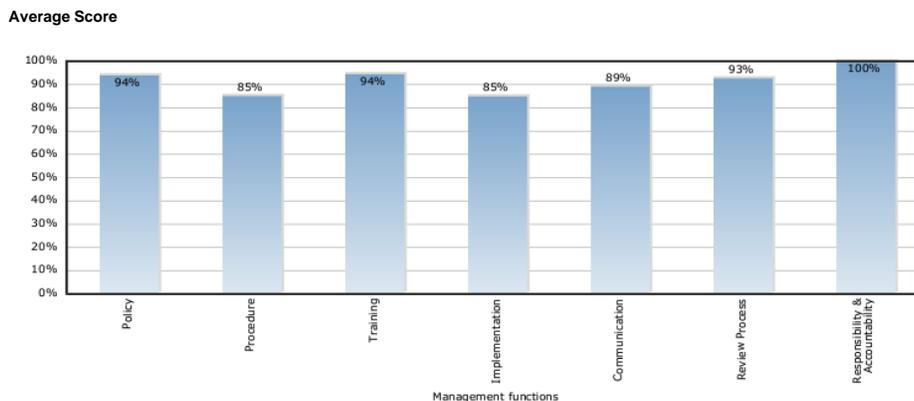
Score by Employment Function

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



Score by Management Function

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



Score Summary

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

Management Functions	Recruitment, Hiring & Personnel Development	Compensation	Hours of Work	Industrial Relations	Grievance System	Workplace Conduct & Discipline	Termination & Worker Retrenchment	Health & Safety	Environmental Protection
Policy	95.83%	100%	100%	75%	100%	92.86%	100%	100%	100%
Procedure	90.63%	95.45%	90%	35.29%	100%	83.33%	85.71%	85.6%	92.86%
Responsibility & Accountability	100%	100%	100%	100%	100%	100%	100%	100%	100%
Review Process	100%	100%	100%	100%	75%	100%	100%	75%	50%
Training	97.6%	81.11%	100%	100%	100%	100%	100%	95.38%	100%
Implementation	88.39%	90.11%	88.89%	64.29%	95.83%	84.38%	100%	82.4%	78.78%
Communication	100%	100%	70%	100%	100%	75%	100%	71.88%	75%

Summary of Code Violations

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

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

FLA Code Element	Number of Violations	Violations
Compensation	1	General Compliance Compensation
Employment Relationship	6	Administration of Fringe Benefits/Holidays, Leave, Legal Social Benefits and Bonuses Administration of Hours/Production and Incentive Schemes Industrial Relations Industrial Relations/Right to Organize, Bargain and Participate in Legal Strikes Work Rules and Discipline Health, Safety, and Environmental Management System/Policies and Procedures
Freedom of Association and Collective Bargaining	7	General Compliance Freedom of Association Employer Interference Employer Interference/Constitution, Elections, Administration, Activities and Programs Employer Interference/Registration Employer Interference/Favoritism Employer Interference/Police and Military Forces Right to Collective Bargaining/Good Faith
Harassment and Abuse	2	General Compliance Harassment or Abuse Discipline/Monetary Fines and Penalties
Hours of Work	2	General Compliance Hours of Work Annual Leave
Health, Safety and Environment	8	General Compliance Health, Safety, and Environment Material Safety Data Sheets/Workers Access and Awareness Machinery Safety, Maintenance and Workers Training Ergonomics Document Maintenance/Workers Accessibility and Awareness Permits and Certificates Evacuation Requirements and Procedure Chemical Management and Training

Findings and Action Plans

FINDING NO.1

INDUSTRIAL RELATIONS

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Copies of the current collective bargaining agreement (CBA) are not provided to workers. Based on worker interviews, employees were neither involved in the formulation of the CBA nor are they aware of the CBA's existence.
2. Employee Handbook Article 7.2.4.25 stipulates that workers will be fired in case of any involvement in any strike or work stoppage.
3. All Trade Union Committee members were from management; workers did not freely elect them.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.16.2 and ER.26; Freedom of Association Benchmarks FOA.2, FOA.10, FOA.11, and FOA.16.1)

Root Causes

1. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations' mechanisms. The Amended Trade Union Act of October 2001 does stipulate that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.
2. Factory management: a) is not aware of FLA's Code of Conduct (COC) related to the CBA and b) does not think it is necessary to provide employees with a copy of the CBA. It is not a legal requirement in China to provide workers with a copy of the CBA.
3. Personnel who created the Employee Handbook that includes Article 7.2.4.25 lack awareness and knowledge on industrial relations and the related legal requirements.

Recommendations for Immediate Action

1. Remove Article 7.2.4.25 from the workplace rules section of the Employee Handbook and ensure that similar provisions are taken out of other relevant documents.

COMPANY ACTION PLANS

1. 1.1 Display collective bargaining agreement on bulletin boards and communicate it to workers through QQ as well.
1.2 Update training materials of orientation training and on-the-job training with collective bargaining agreement on Sept.6, 2013. Since Sept.9, 2013, new employees have been trained. In Oct.2014, 10% of on-the-job employees were selected to have the training.
1.3 Supervisors communicate it to workers during daily team meeting.

Action plan status: In Progress

Planned completion date: 06/30/16

Progress update: 03/24/16 : The CBA that was discussed by factory and the trade union would be included into the new employee handbook. Also, this CBA has been submitted to the Dongguan Human Resource Bureau.

2.

Action plan status: Completed

Planned completion date: 08/22/14

Progress update: 03/24/16 : 1. The factory will report to Headquarters to revise the Employee Handbook. Delete Article 7.2.4.25 and 11.4.2 from the Employee Handbook. The Employee Handbook for Gaobu factories has been revised. The draft handbook will be issued after approved by Headquarters. Before issuing the formal Employee Handbook, it will be executed as per Labor Management Manual.

Completion date: 08/22/14

3. 1. In June 2014, Guangdong Federation of Trade Unions issued Scheme on Organization Building of Trade Union of Four Levels to assist Yue Yuen Trade Union. The factory union will further strengthen the organization building of Trade Union under the guide of Guangdong Federation of Trade Unions.
2. The factory will set up the work team in July 2014. After trained, the work team will reach each production workshop to start the work, like delivering union propaganda leaflets, organizing worker symposium to gain workers' entrust and make workers' membership rate be 60%.
3. On the basis of increasing workers' membership rate, the factory will organize the member representative conference under the guide of Federation of Trade Unions by Sept 2014 to co-opt committee members of Trade Union and establish relevant systems through regular and irregular communication and negotiation system between labor and management.

Action plan status: Completed

Planned completion date: 09/01/14

Progress update: 03/24/16 : 1. In 2014 union representatives were re-elected by union members with the guidance of Federation of Trade Unions. 2. In 2015, the rate of employees joining trade union has reached 73%. 3. Trade union has established a working group for strengthening and promoting workers' participation to the trade union function discussion, and the working group committee was elected in Q3, 2015.

Completion date: 10/01/15

FINDING NO.2

ENVIRONMENTAL PROTECTION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory's wastewater discharge and air emission permits expired March 28, 2012. The factory has not applied for the Three Synchronies Inspection (TSI); therefore, no TSI approval was obtained, which violates legal environmental requirements.
2. Two types of hazardous waste (rags contaminated by hazardous chemicals and toner cartridges) were not disposed of by an authorized handler; no official disposal record for these 2 types of hazardous waste was provided for review. The factory's procedure regarding hazardous waste management does not include 2 categories of waste (sludge and toner cartridges), posing a risk of improper handling and disposal.
3. At most of the glue and paint mixing rooms, mixing tanks were not stored with secondary containers.
4. The air quality test did not cover 2 air-extracting outlets on the 3rd floor of C and Maintenance-Training Buildings; there was no evidence that the air emission qualities for these outlets do not exceed legal limits.

Local Law or Code Requirement

Water Pollution Prevention and Control Law of the PRC (2008), Article 20; Law of Environmental Protection, PRC, Article 26; Law on Prevention and Control of Environmental Pollution by Solid Wastes (2004), Article 59; FLA Workplace Code (Health, Safety and Environment benchmarks HSE.1, HSE.4 and HSE.9)

Root Causes

1. The Environmental Impact Appraisal is in the process of being renewed. It is more appropriate for the factory to apply for the environmental permit and TSI upon completion of the new Environmental Impact Appraisal.
2. The risk assessment is incomplete and did not include the air-extracting outlets and chemical mixing tanks.

3. Internal monitoring was not well implemented. HSE staff from the parent company's regional offices and the local administration center does not have adequate resources and support.
4. 3 out of total 4 HSE staff had less than 1 year of experience in the HSE field and lack the expertise to contribute to the existing HSE management system. There was only 1 senior HSE staff member, which is insufficient given the size of the facility.

Recommendations for Immediate Action

1. Obtain temporary pollutant discharging permit for wastewater and air emissions from the local environmental bureau.
2. Include rags contaminated by hazardous chemicals and toner cartridges on the hazardous waste list;
3. Ensure that authorized handlers dispose of contaminated rags and that the official disposal records are kept on file.
4. The HSE department is to set up proper secondary containment for the mixing tanks in the glue and paint mixing rooms.
5. Conduct a quality test for the 2 air emission outlets on the 3rd floors of C and Maintenance-Training Buildings and keep the testing results on file.

COMPANY ACTION PLANS

1. 1. In Oct 2013, the environmental impact assessment (EIA) report was submitted to local authority for approval. Local Admin Center and Division have positive communication with Dongguan Environmental Protection Bureau.
2. As the main content of original contract with external environmental company changed, the company is making new contract. The environmental company is revising environmental impact assessment reports which have been submitted to EPB twice before. According to the new contract, EIA reports and their approval will be completed within 100 working days. After Gaobu Admin Center of Headquarters communicated with local environmental authority, the authority approved EIA plan of Dong Guan Yue Yuen Shoe Manufacturing Company Limited. It will have good effects on EIA affairs of Dong Guan Pou Chen Footwear Company Limited.

Action plan status: Planned

Planned completion date: 12/31/16

2.

Action plan status: Completed

Planned completion date: 07/31/14

Progress update: 03/24/16 : 1. On Feb.28, 2014, SD dept. revised Waste Management Procedure, increasing the procedure on storage and transfer of sludge and toner cartridges. 2. Division and Admin Center communicated with external disposal company and IT dept about storage and transfer of rag contaminated by waste solvent, sludge and toner cartridges. 3. Division and Admin Center communicated with current waste disposal company. The disposal agreement for sludge and toner cartridges will be confirmed by July 31, 2014. 4. Admin Center is making contract with the hazardous waste disposal company. Meanwhile, the factory is required to collect and keep records of toner cartridges. When transferring the toner cartridges to IT dept. of Admin Center, the factory will keep related records. 5. Sludge in industrial wastewater is written into Waste Management Procedure. After sludge in domestic wastewater is confirmed to be hazardous waste by local environmental authority, it will be disposed.

Completion date: 07/31/14

3.

Action plan status: Completed

Planned completion date: 10/31/13

Progress update: 03/24/16 : 1. The factory conducted an assessment on secondary containments at all glue mixing rooms within the factory by Sept 13, 2013. 2. Measure the glue mixing room that will be provided secondary containments by Sept 20, 2013. 3. Make secondary containments and install by Oct

31, 2013.

Completion date: 10/31/13

4. 1. CIC dept will adjust all air emission outlets and extend their pipes to the roof. The plan will be implemented together with the implementation of factory layout adjustment in July and Aug, 2014.

Action plan status: Completed

Planned completion date: 12/31/14

Progress update: 03/24/16 : The air quality test covered 2 air-extracting outlets on the 3rd floor of C and Maintenance-Training Buildings. All results of air quality test were in line with national standards.

Completion date: 10/15/15

FINDING NO.3

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Around 15% of workers (e.g., those in the vulcanization area) were not provided chairs; 80% of the chairs in the production areas either: a) were not adjustable in height or b) did not have proper backrests to support workers' lower backs and minimize bodily strains.

Local Law or Code Requirement

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

Root Causes

1. Management has some awareness concerning ergonomics, but lacks adequate appreciation of the benefits of ergonomic improvements such as increasing productivity and attendance levels, while reducing risk of worker accidents and Musculoskeletal Disorder (MSDs).
2. Providing ergonomically designed chairs for the entire workforce means substantial additional costs for management.

COMPANY ACTION PLANS

1.

Action plan status:	Completed
Planned completion date:	12/31/14
Progress update:	03/24/16 : 1. SD dept. counted the number of standing workers in each dept and provided them with chairs. CIC developed the plan to install the backrest to chairs. Receive 2,250 ergonomically designed chairs from Yangzhou factory, which will be provided to four production lines. Every production line will be provided 500 chairs. 2. The factory organized ergonomics training in Q4, 2013. Training courses included awkward body positions, excessive force, repetition and improper carrying. 3. In 2014, the factory will organize ergonomics training in Sept.
Completion date:	12/31/14

FINDING NO.4

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory's chemical list is incomplete and the factory does not properly monitor some of the chemicals being used. For instance, there were no material safety data sheets (MSDS) available for: a) Chemical Release Agent SP 416, b) Chemical #1024, and c) photo-emulsion agents SP1200HV and Advance 20LP, which are handled by the service or finishing departments.
2. Management did not comply with the legal requirement regarding giving workers exposed to hazards (high noise, chemicals, radiation) pre-job and pre-departure occupational health examinations. On-the-job occupational health examinations are only provided to concerned workers who have more than 1 year of tenure at the factory while according to applicable regulation, on-the-job occupational health examinations shall be provided each year.
3. The factory does not provide adequate personal protective equipment (PPE) for workers who handle hazardous chemicals. For instance, according to relevant MSDS, there should be 4 kinds of PPE (glasses, gloves, masks, protective clothing) provided for workers. Based on physical observation, only gloves and masks were available on site and the type of mask available was not consistent with the one indicated on the MSDS.
4. Based on worker interviews and document review, the factory neither provided training for workers on the safe operation of the high-frequency heat-sealing machine nor displayed related safety instructions near the machinery.

Local Law or Code Requirement

Law of Prevention and Control of Occupational Diseases, PRC, Articles 23 and 36; FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1, HSE.7, HSE.10, and HSE.14)

Root Causes

1. The large number of workers working with hazards and the factory's high worker turnover rate within the first 3 months of employment (around 10%) makes it difficult for the factory to arrange health examinations for eligible workers and bear the related costs.
2. The HSE department neglected to monitor the handling of chemicals used by the maintenance and finishing departments.
3. Internal monitoring and risk assessment were not implemented well by the factory. Senior HSE officers in both the regional offices of the parent company and the local administration center do not have adequate support and resources.
4. Three out of a total of 4 HSE staff had less than 1 year of experience in the HSE field and lack the expertise to contribute to the existing HSE management system. There was only one senior HSE staff, which is insufficient given the size of the facility.

Recommendations for Immediate Action

1. Conduct an internal inspection that includes all chemicals on file and maintains all relevant MSDS.
2. Arrange pre-job occupational health examinations for new workers and for those internally transferred to work with hazards. Also, arrange pre-exit occupational health examinations for workers who are leaving the factory.
3. Provide adequate PPE for workers handling chemicals in accordance with the MSDS.
4. Provide training for eligible workers on the safety concerns of the high-frequency heat-sealing machine; display the safety instructions near the machinery.

COMPANY ACTION PLANS

1.

Action plan status:	Completed
Planned completion date:	03/31/14
Progress update:	03/24/16 : 1. By Sept 30, 2013, SD dept. made a list of all chemicals used in each dept. According to the chemical list, SD dept checked MSDS of chemicals and reviewed whether MSDS is complete. 2. Chemical suppliers will be required to provide complete MSDS and the factory will

check whether there are banned substances or restricted substances. 3. Purchasing dept and related dept were trained on purchasing, using and waste disposal of chemicals in Quarter 4, 2013. In Nov.2013, waste recycling personnel were trained.

Completion date: 03/31/14

2. On Oct 7, 2013, Headquarters issued the internal documentation that is Implementation Standard of Workers' Occupational Health Examination in Chinese Factories.

All workers who have special job positions and are exposed to occupational hazards should have occupational health examination, including 1) new workers who have special job positions should have pre-job occupational health examination within the first 3 months; 2) on-the-job workers have occupational health examination. 3) workers who leave special job positions or change job position will have pre-exit occupational health examination.

Division is adding more detailed Information on Implementation of Occupational Health Examination and will communicate it to factories.

Action plan status: Completed

Planned completion date: 09/30/14

Progress update: 03/24/16 : 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

3.

Action plan status: Completed

Planned completion date: 10/31/13

Progress update: 03/24/16 : 1. According to chemical MSDS, the factory re-confirmed whether all written procedures on PPE wearing were correct and clear. 2. Based on the chemicals that workers will be exposed to in their job positions, the factory provided paint spraying workers with protective mask that can prevent gas and fog toxicant.

Completion date: 10/31/13

4.

Action plan status: Completed

Planned completion date: 03/01/14

Progress update: 03/24/16 : 1. The factory will review the identification of occupational hazards and communicate the review results with workers through multiple channels, such as operation procedure, warning sign and propaganda. In Dec. 2013, radiation machine and HF emboss machine were posted warning signs. 2. Add radiation hazards, ergonomics and traffic safety to the training plan for production workers and drivers and carry out these training. In Feb. 2014, drivers were trained on safety.

Completion date: 03/01/14

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory has not obtained fire safety inspection reports for Buildings B, C and the Development Center for [Brand Name].
2. Three soldering operators in the service and maintenance departments do not have official working permits.
3. There is an insufficient number of first aiders. There are only 27 first aiders in the factory for a total of around 7,000 workers. This ratio is below the factory's internal requirement that each floor should have 3 – 6 first aiders; As there are 15 floors in 3 production buildings, the factory should have at least 45 – 90 first aiders.
4. According to random tests in several factory workplaces, illumination levels ranged from 180 – 220 lux, these levels do not meet the 300-lux legal requirement.

Local Law or Code Requirement

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.4, HSE.6, HSE.13, and HSE.14)

Root Causes

1. The factory has changed the fire prevention system for all buildings; there are still a few buildings in the process of application and inspection for fire safety approval.
2. The HSE department neglected to monitor maintenance department operations.
3. Internal monitoring and a risk assessment were not well implemented by the factory and senior HSE officers at both the regional parent company and administration center lack related oversight.

Recommendations for Immediate Action

1. Obtain valid fire safety inspection reports for Buildings B, C, and the Development Center for [Brand Name].
2. The maintenance personnel who solder should obtain the relevant certification for soldering. Prior to worker certification, soldering operations should not be done.
3. Arrange for a sufficient number of workers to get first aid training and obtain valid certifications.

COMPANY ACTION PLANS

1. On Sep. 10, 2013, Engineering Dept. provided the factory with fire safety inspection reports for Building B, C and D.
2. Fire safety engineering for adidas Development Center will obtain comments for fire safety inspection.
3. RS6 plant is not included in the scope of inspection, so it does not have fire safety inspection for the Building. An assessment will be conducted later.

Action plan status: Completed

Planned completion date: 12/31/14

Progress update: 03/24/16 : Obtained the fire safety permits for all buildings from Dongguan Fire Prevention Bureau.

Completion date: 07/20/15

2.

Action plan status: Completed

Planned completion date: 10/18/13

Progress update: 03/24/16 : 1. Workers who have special job positions have obtained the relevant certification. 2. On Sep. 30, 2013, the factory issued the internal documentation to declare the terms written in the Personnel Recruitment Procedure that only workers who in special job positions provide valid certification can have admission. 3. SD Dept. checks the list of workers who have special job

positions and their certification every month to ensure no worker has special work without working permits.

Completion date: 10/18/13

3.

Action plan status: Completed

Planned completion date: 06/30/14

Progress update: 03/24/16 : 1. Conduct the assessment on the number of trainees and arrange the schedule of training by Sept.30. 2. In Nov.2013, 61 first aiders were trained. Certifications will be issued by Dongguan Red Cross. 3. The number of employees is 5,563. There are 56 first aiders.

Completion date: 06/30/14

1. Conduct an illumination assessment throughout all workplaces, passages, and stairways and improve all areas which have insufficient illumination.
2. Conduct illumination test to different floors on a regular basis quarterly.
3. When conducting lighting design and starting the engineering later, SD Dept. will provide illumination test result and related standard to the engineering company. The illumination will be tested before the acceptance inspection of the engineering.

Action plan status: Completed

Planned completion date: 11/30/13

Progress update: 03/24/16 : 1. SD Dept. followed the adidas standards to conduct the illumination assessment throughout all workplaces. All of the workplaces reached the standard level of 300 LUX, and the QC areas reached the standard level of 650-800 LUX. 2. Provide the seasonally inspection for the illumination.

Completion date: 12/25/15

FINDING NO.6

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory's job application form asks candidates for information regarding their marital status and number of children.
2. The factory does not have a job description for production workers; their positions were not indicated in their employment contracts.
3. During the recruitment process, workers were not informed in writing as to whether and which occupational disease hazards they would be exposed to, which violates legal requirements.
4. The number of disabled workers (0.3% of total workforce) is below the legal requirement (1.5% of total workforce.) Although the factory contributes to the employment security fund in lieu of employing disabled workers as allowed under the local law, this practice carries the risk of discrimination based on FLA Benchmarks.

Local Law or Code Requirement

Law of Employment Contracts, Articles 8 and 17; Law of the PRC on the Prevention and Control of Occupational Diseases, Article 34; Regulations on the Employment of Persons with Disabilities, Article 8; FLA Workplace Code (Employment

Root Causes

1. Collecting information about workers' marital status and number of children during the recruitment process is a common practice in local factories.
2. The HR department uses the job application form as workers' personal information form, so that they do not need to collect it later on.
3. The factory prefers to orally communicate some job descriptions to candidates, which is considered an easier way for recruitment.
4. The factory uses a standardized employment contract without specific positions.
5. The factory uses a standardized notice in all employment contracts to inform workers about all hazards, instead of indicating specific hazards in order to lower the HR workload.
6. Regulations on the Employment of Persons with Disabilities, Article 9 allows employers to contribute to the employment security fund in lieu of hiring disabled workers.
7. As the type and severity of disability is an important factor for deciding if a candidate is suitable for the workplace/task to which they will be assigned, factory finds it difficult to recruit eligible disabled workers at times.

Recommendations for Immediate Action

1. Delete the sections related to marital status and the number of children in the job application forms.
2. If applicable, new workers should be informed in writing as to which occupational disease hazards they will be exposed to.

COMPANY ACTION PLANS

1.

Action plan status: Completed

Planned completion date: 10/01/13

Progress update: 03/24/16 : Delete the sections related to marital status and the number of children in the job application forms and use new forms.

Completion date: 10/01/13

2. Develop job descriptions for all production workers' positions.

Action plan status: Completed

Planned completion date: 09/30/13

Progress update: 03/24/16 : 1. In 2013, the job descriptions for all production workers' positions have been completed, and the job descriptions shall be applied to recruitment process and induction. 2. Job descriptions are communicated to workers when they are inducted into positions.

Completion date: 09/30/13

3.

Action plan status: Completed

Planned completion date: 10/31/13

Progress update: 03/24/16 : 1. Update employment contract regarding occupational hazards and related protective measures. 2. Update the training materials for new employees' orientation training regarding the occupational hazards. Occupational hazards and related protective measures are communicated to workers in each orientation training.

Completion date: 10/31/13

4.

Action plan status: Completed

Planned completion date: 08/31/14

Progress update: 03/24/16 : 1. The factory will update the recruitment policy to have clear statement that disability should not be employment restrictions. 2. Cooperate with Employment Management Office for the Disabled in Dongguan to publish recruitment information of the factory.

Completion date: 08/31/14

FINDING NO.7

HOURS OF WORK

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Based on observation and worker interviews, the 10-minute ergonomic breaks at 10am and 3pm as required by the factory are not actually observed throughout the workplace.
2. Factory did not make reasonable effort to ensure female workers understand the fringe benefit whereby they are legally entitled to overtime work during the lactating period, if they so choose and provided their children are being taken care of (for example, by family members at their hometown). This benefit was not included in the training material or posted on the production site. As a result, none of the lactating workers exercised this option.
3. Workers' historical seniority in previous jobs was not taken into account when calculating workers' number of paid annual leave days, which is in breach of the legal requirement.
4. From September 2012 to July 2013, the average monthly overtime reached 78 – 80 hours, which exceeds the legal limit of 36 hours per month.

Local Law or Code Requirement

Labor Law of PRC, Article 41; Paid Annual Leave Regulation (2007), Article and Implementation Measures of Employees' Paid Annual Leave (2008), Article 5; FLA Workplace Code (Employment Relations Benchmark ER.16; Hours of Work Benchmarks HOW.1 and HOW.11; Compensation Benchmark C.17)

Root Causes

1. Production floor line supervisors are pressured to fulfill production targets; therefore, they fail to provide workers with ergonomic breaks.
2. The factory is refraining from assigning overtime work to lactating workers in order to avoid any potential negative consequences/liabilities and does not fully understand the applicable legal requirement.
3. The factory has not fully understood the legal requirements regarding granting workers annual leave. This issue was not pointed out during previous assessments/audits.
4. The factory's production planning is based on 58 hours per week.
5. Most workers rely on overtime work to increase their income.

Recommendations for Immediate Action

1. Provide workers with ergonomic breaks at least 2 times a day in accordance with the existing factory policy.

COMPANY ACTION PLANS

1.

Action plan status: Completed

Planned completion date: 09/13/13

Progress update: 03/24/16 : 1. Factory senior management communicates the requirement to all department supervisors in the meeting of factory affairs. 2. Department supervisors communicate and advocate the requirement to workers by Sept.13, 2013. 3. The factory has provided the 10-minute broadcast at 10am and 3pm since Sept. 2013. Workers have 10-minute ergonomic breaks.

Completion date: 09/13/13

2.

Action plan status: Completed

Planned completion date: 09/20/13

Progress update: 03/24/16 : 1. The factory has developed internal policy on overtime work of lactating workers. 2. As for female workers who are in the lactating period but their children do not live with them (for example, be taken care by family members at their hometown), or female workers who did not nurse their children by themselves (for example, their children are weaned or provided with milk instead of breastfeeding), if they put forward the written application for overtime work to Personnel Dept., after verified by SD Dept. and reviewed by Trade Union, the factory will arrange lactating workers to have overtime work.

Completion date: 09/20/13

3. Have updated new Employee Handbook of Headquarters regarding the regulations concerning paid annual leave.
4.2.1.3 Annual Leave: Workers are legally entitled to annual leave based on their working seniority. National holidays and rest days are not counted into annual leave days. The company can arrange annual leave according to actual production status and workers' need. Wage for annual leave will be calculated on normal attendance (8 working hours).
4.2.1.3.3 Workers are required to provide service evidence (such as social insurance) to calculate workers' number of paid annual leave days.

Action plan status: Completed

Planned completion date: 07/31/14

Progress update: 03/24/16 : 1. Set up a new SOP and reach an agreement with trade union, that the factory implements the new regulations regarding the paid annual leave in 2015. 2. Workers' historical seniority in previous jobs that was confirmed to be true shall be taken into account when calculating worker's number of paid annual leave days. 3. To communicate the regulations concerning paid annual leave, every employee will receive a new employee handbook.

Completion date: 12/31/15

4.

Action plan status: Completed

Planned completion date: 12/31/14

Progress 03/24/16 : The company will communicate with the customer about the order plan to adjust gradually

update: the production plan in order to comply with law requirements. New Employee Handbook stipulates that 1. The regular working hours per day are 8 hours. Total regular working hours per week are within 40 hours. Weekly working hours per person are within 60 hours. The company should also comply with local law and regulations on working hours. 2. Employees' overtime work should be voluntary. Employees' application for overtime work should be signed by themselves. 3. Special system for working hours: After negotiating with Trade Union, the company applies to local labor authority for the Comprehensive Working Hour System and Flexible Working Hour System. The factory will control the working hours within the written approval's limit.

Completion date: 12/31/14

FINDING NO.8

COMPENSATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory has not paid for the social insurance of all workers; around 20% of workers are not covered with pension and unemployment insurance.
2. The social insurance contribution base was not aligned with workers' actual earnings as per local law. Factory calculates the contribution base according to the minimum contribution standard, while most workers' actual earnings are higher.
3. Factory did not pay into the housing provident fund for regular workers as per local law. The supervisors' housing fund contribution base is below their actual earnings, which is also in breach of the local law.

Local Law or Code Requirement

Social Insurance Law of PRC, Articles 4 & 44; Regulation on Dongguan City Housing Provident Fund Deposit Management, Articles 3, 10 & 12; FLA Workplace Code (Employment Relationship Benchmark ER.22.1, Compensation Benchmark C.1)

Root Causes

1. The employer considers the contributions to social insurance and housing provident fund financially burdensome.
2. The Chinese social insurance system is under development and as a result, the process of insurance transfer across the country is still complicated. Most employees are migrant workers, but they are not provided adequate support and assurance from the local government or their employer with respect to the transfer of their pension funds back to their hometowns. As a result, most workers prefer higher disposable income in the short-term to long-term benefits and opt to contribute to social insurance only partially or not at all.
3. Local governments have not been monitoring and enforcing compliance strictly.

COMPANY ACTION PLANS

1.

Action plan status:	Completed
Planned completion date:	05/01/14
Progress update:	03/24/16 : The factory has paid for the social insurance and into the housing provident fund for all workers with full payment since May 1, 2014.
Completion date:	05/01/14

FINDING NO.9

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Factory's discipline policy and practice do not allow the workers to participate in the disciplinary process or be heard regarding the disciplinary actions imposed on them. Nor does the factory allow for the presence of a third-party witness and review by senior management to ensure a fair process.
2. Supervisors occasionally adopt inconsistent disciplinary measures. For instance, for minor infractions (like use of mobile phone during work) workers are given a level of demerit that should procedurally apply to mistakes that cause the factory a substantial monetary loss.
3. Management does not provide training for supervisors on disciplinary policies and procedures.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.27.2 and ER.27.3)

Root Causes

1. Management lacks awareness of FLA Workplace Code and Benchmarks regarding discipline.
2. Sidestepping of third party witness mechanism and appeal process was considered a more efficient way to take disciplinary actions by factory management.
3. Management thought that the suggestion boxes sufficed for workers to raise grievances and also served the purpose of an appeal mechanism.

COMPANY ACTION PLANS

1. Add additional descriptions of the fact of discipline and communication form to make the complainant and the defendant have sufficient communication before execution of disciplinary actions to ensure the fact of discipline.
2. If the disciplinary action is confirmed but the employee refuses to sign the notice, the case will be handed to Trade Union. Trade Union will start the intermediation mechanism. The representative of Trade Union will investigate the case and keep records of the involved party and records of the third party as the evidence of case investigation which will be signed by the representative of Trade Union. If necessary, the records will be sent to the mediation committee for mediation.
3. Since Dec. 2013, the factory has used new disciplinary forms.

Action plan status: Completed

Planned completion date: 12/01/13

Progress update: 03/24/16 : 1. The discipline procedures have been revised , and the revised procedures in the new employee handbook allow workers to express or explain themselves before the discipline measures are imposed on them. 2. Trainings on revised discipline procedures are provided to workers and supervisors since Dec. 2013.

Completion date: 12/01/13

2. 1. The Employee Handbook for Gaobu factories has been revised. Disciplinary terms are in accordance with gradual disciplinary principle.
2. Regarding discipline practice, when SD Dept. reviews the disciplinary notice form, Labor staff will confirm the details, including when, where, what happened, how serious, the frequency, whether it can be given a level of demerit. In 2014, factory's disciplinary record decreased. It's mostly 10 workers or less every month, which is 40% less than the same period last year. If the disciplinary notice form is improper, SD Dept. will return the notice form or ask the related personnel to correct the information.
3. From Sept. 1 on, SD Dept. and Trade Union strengthen the review of disciplinary notice form. If the notice form is against the gradual disciplinary principle, the notice form will be returned.
4. Add disciplinary practice procedure to training materials for new employees' orientation training and have provided related training to new employees since Sept.9, 2013.
5. In Oct., assistants of all departments were trained on disciplinary policy.

Action plan status: Completed

Planned completion date: 10/31/13

Progress update: 03/24/16 : Since 2014, the SD dept. has conducted the training courses of disciplinary policy

Completion date: 10/31/13

FINDING NO.10

COMPENSATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory does not make reasonable efforts to ensure that workers and supervisors understand the incentive structure. There was no clear written definition of the types and eligibility criteria for performance bonuses; nor were the workers communicated to on these.

Local Law or Code Requirement

FLA Workplace Code (Compensation Benchmark C.17)

Root Causes

1. Immediate supervisors and management are granted strong authority on bonus allocation and deduction without a systematic oversight mechanism. Factory thinks of this approach as a more efficient way of incentivizing the workforce and finds establishing a detailed procedure cumbersome.
2. This issue has not been raised during previous internal and external audits.

COMPANY ACTION PLANS

1. 1. The factory revised and implemented new procedure on performance bonus in March 2014. The performance scoring will be operated according to job positions.
2. From March 2014 to May 2014, all on-site supervisors were trained on the new procedure. Supervisors are required to communicate the new procedure to workers.
3. Communicate the new procedure to workers during on-the-job training on wage and orientation training of new workers every month.
4. Make detailed propaganda materials and display them on bulletin boards of all depts.

Action plan status: Completed

Planned completion date: 05/01/14

Progress update: 03/24/16 : 1. Factory has built up the internal monitoring mechanism to check the performance bonus allocation. 2. The allocation of performance bonus are reviewed by supervisors and the planning dept., and monitored by CIC (Continuous Improvement Center) Dept. Should workers have any doubts or concerns on their performance bonus, they could reach SD or HR for assistance.

Completion date: 05/01/14

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

1. The Chinese footwear industry currently does not provide wages that allow for the fulfillment of basic needs plus a discretionary income.
2. 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. The company will pay attention to the issue, have worker interview, and analyze the industry figures to know the cost of living index and industrial wage level.

Action plan status: Completed

Planned completion date: 12/31/14

Progress update: 03/24/16 : 1. In 2015, the average wage in the factory was \$3, 594 which exceeded the average wage in Dongguan (\$3,005). 2. 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 second highest among the 10 categories.

Completion date: 12/31/15