



COMPANY: Knights Apparel, Delta Apparel, Inc
COUNTRY: China
ASSESSMENT DATE: 10/30/14
MONITOR: Social Compliance Service Asia Ltd. (SCSA)
PRODUCTS: Apparel
PROCESSES: Cut, Sew, Other
NUMBER OF WORKERS: 273
NUMBER OF WORKERS INTERVIEWED:
ASSESSMENT NUMBER: AA0000000579

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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.

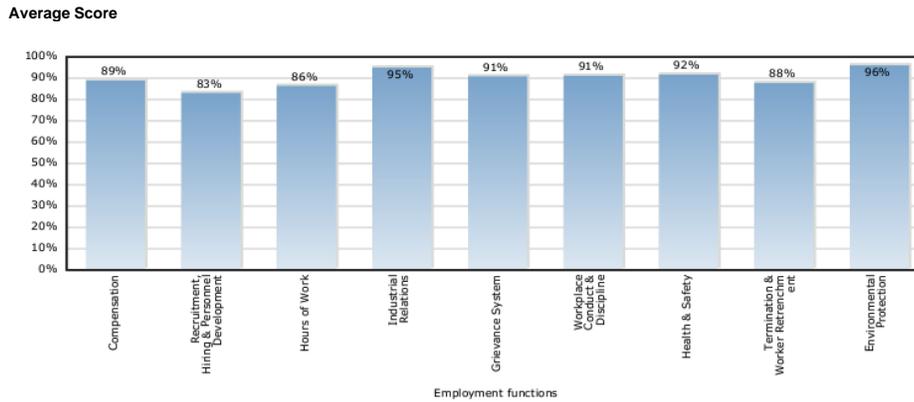
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that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

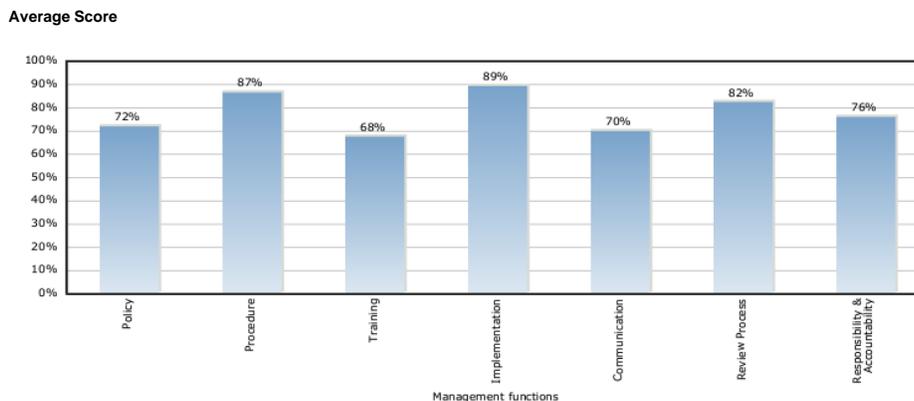
Score by Employment Function

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	66.71%	83.33%	83.33%	100%	83.33%	83.33%	75%	100%	100%
Procedure	70.88%	66.67%	80%	100%	80%	83.33%	62.5%	96.43%	100%
Responsibility & Accountability	85.71%	80%	85.71%	100%	80%	80%	80%	100%	100%
Review Process	50%	100%	100%	100%	100%	100%	75%	66.67%	66.67%
Training	70%	33.33%	33.33%	50%	33.33%	25%	16.67%	92.31%	66.67%
Implementation	88.46%	85.94%	90.32%	88.89%	90%	94.12%	90%	87.55%	92.31%
Communication	33.33%	75%	50%	100%	50%	83.33%	50%	100%	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	Number of Violations	Violations
Compensation	2	Record Maintenance False Payroll Records
Employment Relationship	12	General/Human Resource Management Systems Terms and Conditions/Communication Terms and Conditions/Supervisor Training General/Documentation and Inspection Administration of Fringe Benefits/Holidays, Leave, Legal Social Benefits and Bonuses Administration of Hours/Time Recording System Work Rules and Discipline Skills Development/Management of Performance Reviews Recruitment and Hiring/Employment Decisions Skills Development/Promotion, Demotion and Job Reassignment Health, Safety, and Environmental Management System/Policies and Procedures Termination and Retrenchment/General Policies and Procedures
Freedom of Association and Collective Bargaining	2	Right to Freely Associate Rights of Minority Unions and their Members
Health, Safety and Environment	6	Ergonomics Food Preparation Notification and Record Maintenance Permits and Certificates Evacuation Requirements and Procedure Safety Equipment and First Aid Training
Non-Discrimination	2	General Compliance Nondiscrimination Recruitment and Employment Practices/Job Advertisements, Job Descriptions and Evaluation Policies

Findings and Action Plans

FINDING NO.1

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory has no written policies or procedures on personnel development.
2. There are no performance review procedures that include steps and processes, demonstrate linkages to job grading, prohibit discrimination, provide written feedback, and comply with legal requirements.
3. The factory does not have procedures to raise or broaden workers' skills in order to advance their careers.
4. The factory does not have steps and requirements for demotion and reassignment.
5. The factory does not have written outcomes for worker promotion, demotion, and reassignment.
6. The factory does not have written policies or procedures on retrenchment.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.28.1, ER.29.1, ER.30.1.1, ER.30.1.2, and ER.32.1)

COMPANY ACTION PLANS

1. 1. HR/ Mgmt is required to create job descriptions for all production positions and create a binder in writing. / 2 months
2. All workers should be communicated with on job descriptions in order for workers to understand expectations of job requirements in order to allow for future growth & development of skills for advancement/ 2 months
3. Management is to create procedures on personnel development and retrenchment / 2 months;
4. Management is to create policy & communicate to HR steps and requirement for demotion , reassignment. 2 months
5. HR Department is to implement a performance review system to ensure fairness in job grading & prohibit discrimination Performance review policy should be in writing/ 3 months
6. Workers, supervisors, and management should be trained on performance review system./ 3 months"

Action plan status: Planned

Planned completion date: 10/16/15

FINDING NO.2

TRAINING (MACRO)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. There is no training provided for supervisors or managers for any of the Employment Functions.
2. The factory has not conducted training on maintenance safety for employees with maintenance responsibilities.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.17, ER.27.2, and ER.28)

COMPANY ACTION PLANS

1. Factory will develop a plan of training for managers and supervisors on policies and procedures.. Employees with maintenance responsibilities are to be trained on maintenance safety./ 2 months

Action plan status: Planned

Planned completion date: 09/18/15

FINDING NO.3

WORKER INTEGRATION (MACRO)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The worker integration component is missing across all Employment Functions. This indicates that the factory has not

established procedures to request and/or receive workers' input/feedback regarding the creation, implementation, and updating of its policies and procedures. Workers are neither systematically integrated nor consulted in decision-making processes.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.3 and ER.25.2)

COMPANY ACTION PLANS

1. Create process to allow workers to provide feedback on creation, implementation, and updating policies & procedures.

Action plan status: Planned

Planned completion date: 09/04/15

FINDING NO.4

REVIEW PROCESS (MACRO)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory does not periodically review policies and procedures for the following Employment Functions: Recruitment, Hiring & Personnel Development, Termination & Retrenchment, and Environmental Protection.

Local Law or Code Requirement

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

COMPANY ACTION PLANS

1. Factory will set a procedure in place to insure policies & procedures for employee functions of recruitment, hiring, termination, retrenchment, and environmental protection are reviewed & updated.

Action plan status: Planned

Planned completion date: 09/04/15

FINDING NO.5

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The number of disabled workers, 0.6% of the total workforce, is below the legal requirement (at least 1.5% of total workforce). Although the factory contributes to the employment security fund in lieu of employing disabled workers, as is allowed under the local law, this practice carries the risk of discrimination based on the FLA Workplace Code and Benchmarks.
2. The factory does not conduct performance reviews for all employees.

Local Law or Code Requirement

Regulation on the Employment of the Disabled (2007), Article 8 Regulation on the Employment of the Disabled of Jiangsu Province (2006), Article 4; FLA Workplace Code (Employment Relationship Benchmark ER.3 and ER.29.1.1; Nondiscrimination Benchmarks ND.1 and ND.2.1)

COMPANY ACTION PLANS

1. Devise a plan to insure performance reviews of employees are conducted. Monitor employment applications to insure discrimination does not occur for hiring employees with disabilities. Management or HR manager should contact local chapter in Jiangsu Province for encouraging applications of disabled workers. We are requesting that the % of disabled workers be increased. / 2 months

Action plan status: Planned

Planned completion date: 09/18/15

FINDING NO.6

COMPENSATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory does not pay social insurance for all workers; 32.5% of workers are not covered with injury, medical, pension, unemployment, and maternity insurance.
2. The social insurance contribution base is not aligned with workers' actual earnings. The factory calculates the contribution base according to the minimum legal contribution standard, while most workers' actual earnings are higher than the minimum standard.
3. The factory told workers' that contributions to social insurance are optional. However, according to legal requirements, it is mandatory.
4. The factory does not contribute to the Housing Provident Fund for workers, as required by local law.

Local Law or Code Requirement

Labor Law of PRC, Article 72; Social Insurance Law of PRC, Articles 58 and 60; Regulation on the Housing Provident Fund Management (2002), Article 15; FLA Workplace Code (Employment Relationship Benchmarks ER.18 and ER.22; Compensation Benchmarks C.1 and C.17.1.3)

Recommendations for Immediate Action

1. Provide social insurance for all workers, according to the legal contribution base.
2. Ensure that the factory contributes to the legally required Housing Provident Fund.

COMPANY ACTION PLANS

1. 1. Factory should provide social insurance for all workers to legal contribution. / 6 months
2. Develop records to monitor and evaluate that this is occurring. HR should have records of contributions in employee file. The legal limit must be paid./ 2 months
3. Social insurance is not optional, it is mandatory. This must be communicated to workers at hire / review. / 2 months
4. It is legally required to contribute to the Housing Provident Fund for workers and must be adapted to immediately. Provide documentation that this is being done, maintained and recorded/ 2 months

Action plan status: Planned

Planned completion date: 01/22/16

FINDING NO.7

COMPENSATION & HOURS OF WORK

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There were discrepancies between time and payment records, a second set of wage records, and production-related records. Therefore, working hours and payment status could not be verified during the assessment.
2. On the first day of the assessment, assessors showed a discrepancy in wage records as an example to factory management. The wages records obtained from the workshop showed that worker who had worked 285.5 hours in August 2014 and his net wage was CNY 3279.53; however, factory management provided time and payment records showed that the mentioned worker had worked only 216 hours and received net wage CNY 2558. The factory management's representative was unable to provide any explanation for the records discrepancies. The factory claimed that it only maintains one set of time and payment records which are complete and accurate, and that it had already been provided for this assessment.
3. Various other discrepancies were also found. Due to these inconsistencies, the assessors were not able to verify if the factory's Hours of Work and Compensation are in compliance with legal requirements and FLA standards.

Local Law or Code Requirement

Labor Law of PRC (1995), Article 36, 38, 41, 44, and 48; Regulations on Wage Payment in Jiangsu Province (2005), Article 17 and 18; FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.23; Compensation Benchmarks C.1, C.5, C.15, and C.16)

Recommendations for Immediate Action

1. Ensure that all time and payments records are complete and accurate.

COMPANY ACTION PLANS

1. Ensure that proper records are kept & accurate. All records for hours worked & payments must be complete and accurate. Discrepancies in workshop & management records should not exist. Identify reason management records do not match and correct problem. Workshop & factory management (HR or payroll) must devise a specific record keeping agenda of matching so that there is one set of accurate data. Factory management needs to advise system and provide sample of form prior to completion date. Workshop & factory managers should review monthly and provide support of correction. / 2 months

Action plan status: Planned

Planned completion date: 09/25/15

FINDING NO.8

HOURS OF WORK

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Based on the time records provided by the factory, the monthly overtime exceeded the 36 hour legal limit, averaging 40 hours a month for at least 90% of production workers in November 2013, March, and May to August 2014. The highest monthly overtime recorded was 48 hours in August 2014. However, various discrepancies were found when comparing the time records provided with other information and records obtained.

Local Law or Code Requirement

Labor Law of the PRC (1995), Article 41; Labor Protection of Jiangsu Province (2003), Article 29; FLA Workplace Code (Hours of Work Benchmark, HOW.1.1)

COMPANY ACTION PLANS

1. Develop & plan production schedule to avoid excessive overtime above legal limit.

Action plan status: Planned

Planned completion date: 08/22/15

FINDING NO.9

INDUSTRIAL RELATIONS

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory does not currently have a union, but instead has a Workers' Committee. It consists of five workers from the production floor, who have been freely elected by the workers. Workers' Committee meetings are conducted every month; however, the committee is not effective and does not provide input to the management on matters pertaining to workers' welfare, remuneration, working hours, rest, vacation, etc.
2. The factory has a Collective Bargaining Agreement (CBA) concluded with the chairman of the Workers' Committee. Workers were not provided with a copy of the (CBA), and none of the interviewed workers were informed about the content of the CBA.
3. 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.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.16.2 and ER.25.2; Freedom of Association Benchmarks FOA.2 and FOA.21)

COMPANY ACTION PLANS

1. .Encourage Workers Committee members to provide input to management on worker issues of hours worked, rest, vacation, basic welfare issues. The CBA is required to be made available to all workers. Chairman of Workers' Committee must discuss this policy with workers & have documentation available to employees./ 2 months

Action plan status: Planned

Planned completion date: 09/18/15

FINDING NO.10

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. One of two emergency exits in the sample section is blocked by machinery. In addition, various materials are blocking one of three emergency exits at the temporary warehouse.
2. Materials are blocking firefighting equipment in the warehouse.
3. Two safety exits in the sample and string collection sections do not have exit signs and emergency lights.
4. Exit signs in the sewing and sample sections do not stay lit when the power goes out.
5. There are no fire alarms installed in the finished goods warehouse and the two temporary warehouses.
6. Two evacuation exit doors in the finished goods warehouse and sample section open in the incorrect direction for evacuation.
7. Fire alarm buttons installed in the sewing and finishing sections exceed the legal height limit of 1.5 meters.
8. The factory does not have a fire acceptance check permit and a building construction review certificate for one block of single story material warehouses

9. Food samples are not kept for 48 hours, as per local legal requirements.

Local Law or Code Requirement

Fire Prevention Law of the People's Republic of China (2009), Article 28; Code for design of building fire protection and prevention (2006), Articles 7.4.12, 11.3.1, 11.3.4, and 11.4.1; Code for design of automatic fire alarm system (1998), Article 5.2.2.5; Regulation on Hygienic of Food Industry and Delivery Unit of Group Meals (2005), Article 35; Fire Prevention Law of the People's Republic of China (2009), Article 13; Construction Law of the People's Republic of China (2011), Article 61; Provision of Construction Engineering Quality Control (2000), Article 16; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.4, HSE.5.1, HSE.6.1, and HSE.22.1)

Recommendations for Immediate Action

1. Keep emergency exits clear of obstructions at all times.
2. Keep firefighting equipment clear of obstructions at all times.
3. Install exit signs and emergency lights at all emergency evacuation exits, and conduct periodic maintenance.
4. Install fire alarms in the finished goods warehouse and two temporary warehouses, and conduct regular inspections.
5. Fix the evacuation doors in the finished goods warehouse and sample section so they open the correct direction.
6. Re-install fire alarm buttons to ensure that they are between 1.3 meters and 1.5 meters high.
7. Obtain a fire acceptance check permit and building construction review certificate.
8. Keep food samples for 48 hours.

COMPANY ACTION PLANS

1. 1. Immediately make sure all emergency exits & firefighting equipment are clear of obstruction and available for use if needed in case of emergency!
2. install lighting at emergency evacuation exits & conduct periodic maintenance.
3. install fire alarms in finished goods & temp warehouses
- 4/ re-install fire alarm buttons are proper height.
5. Fix evacuation doors so that they are opening in proper direction/
6. Obtain fire acceptance check permit building construction review certificate.
- 7/ keep food samples for 48 hours

Action plan status: Planned

Planned completion date: 07/18/15

FINDING NO.11

HEALTH & SAFETY

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory does not keep illness records.
2. None of the chairs in the production areas have backrests to support workers' lower backs.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.31; Health, Safety & Environment Benchmarks HSE.3 and HSE.17.1)

COMPANY ACTION PLANS

1. Devise a system to record employee illness records.
Review production area seating to provide backrests for workers. This may be needed in certain positions/ jobs.

Action plan status: Planned

Planned completion date: 08/22/15