



2010

FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

COMPANY: Nike, Inc.
COUNTRY: China
FACTORY CODE: 0700151217I
MONITOR: Openview Service Limited
AUDIT DATE: September 16, 2010
PRODUCTS: Laundry process
PROCESSES: Hand brushing, Grinding,
Hand Sewing, Spray Painting
NUMBER OF WORKERS: 176



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Wages, Benefits and Overtime Compensation: Holidays, Leave, Legal Benefits and Bonuses

WBOT.5 Employers shall provide all legally mandated holidays, leave, benefits and bonuses, such as official holidays, annual leave, sick leave, severance payments and 13th month payments, to all eligible workers within legally defined time periods. In addition, all leave and bonuses shall be calculated correctly. (S)

Noncompliance

Explanation: 1. Factory only provided pension, medical, unemployment, and work-related injury insurances to 50 of 176 employees; no maternity insurance was provided for any worker.

2. Factory did not set up clear policies on paid leaves (i.e., public holidays; annual, sick, marriage, and funeral leaves); no piece worker had been paid such leave.

Sources: Employee Handbook review, payroll record review, worker and management interviews

Legal References: Article 73 of China Labor Law, Article 19 of Provisions on Payment of Wages in Guangdong Province

Plan Of Action: 1. Factory must provide all legally mandated benefits/social insurance to all eligible workers.

2. According to local law, factory must pay workers for their sick, maternity, marriage, bereavement, annual, and injury leaves. 3. PC will provide factory with benchmarks/targets. A benchmark/target on social insurance (SI) coverage, a step-by-step plan for increasing has already been communicated with factory management.

Factory promised to gradually increase social insurance coverage to 100% by March 2012 with this step-by-step plan: August 2011: 77%, November 2011: 90%, January 2012: 95%, and March 2012: 100%. Factory administrative manager, [Employee name], is responsible for this plan and will communicate social insurance benefits and the plan for increasing them to all employees at the time of hire and on an ongoing basis. Converse SMP team will follow up its implementation through on-site visit/audit or will document a quarterly review.

Deadline Date: 05/31/2013

**Action
Taken:** March 30, 2011 visit:

1. In March 2011, 64 of 154 (42%) employees participated in pension, medical, unemployment and work-related injury social insurances. Confirmed from local labor bureau, maternity insurance for [City name] has been combined into medical insurance since June 2010. The workers who 1) obey the "birth control policy" and 2) have 6 months of consecutive medical insurance records from June 2010 to the previous month of childbearing will be entitled to this benefit.
2. Factory has had a set leave policy from October 2010 which includes sick, maternity, marriage, bereavement, annual, and injury leaves, and they have trained their workers well. However, per factory policy: a) employees only can take 1 day for funeral leave, not the 3 days legally allowed and b) there are only 3 days for marriage leave, no more 10 days late, marriage leave was provided as required legally. Factory administrative manager, [Employee name], is responsible for policy establishment and implementation.
3. Annual and maternity leave records were also reviewed during the visit.
4. Through further communication between PC and factory management, factory administrative manager, [Employee name], is responsible for: a) modifying the leave policy by 8/10/2011, b) training all employees and managerial supervisors on the updated policy; and c) keeping the related-leave applications and pay records for at least 2 years for review.

Sources: document review, employee and management interviews, factory policy review

Participating Company (PC) audit December 29 & 30, 2011:

1. 85% of the total number of employees have already participated in all types of social insurance in November 2011; the other 15% were also covered by commercial accident insurance. The plan is to increase to 100% by May 31, 2013.
2. The related-leave policy was updated in compliance with legal requirements, communicated to all employees, and implemented accordingly. This issue can be closed.

Sources: document review, employee and management interviews

**Plan
Complete:** No

**Plan
Complete
Date:**

Wages, Benefits and Overtime Compensation: Minimum Wage

WBOT.2 Employers shall pay workers at least the legal minimum wage or the prevailing industry wage, whichever is higher. (S)

Noncompliance

Explanation: About 10% of workers' wages were below the local minimum wage standard: RMB 770 per month before May 2010 and RMB 920 afterwards.

Sources: January 2010 to June 2010 payroll record review, employee and management interviews

Legal Reference: Article 48 of China Labor Law

Plan Of Action:

Through a follow-up visit, PC will ensure that the factory has:

1. Paid employees at least the local minimum wage.
2. Investigated the compensation discrepancies in order to pay any additional wages due to the employees.
3. Finally, PC will confirm that the factory has a dedicated person who will investigate these discrepancies and ensure that they do not reoccur.

**Deadline
Date:** 09/30/2011

**Action
Taken:** PC visit on March 30, 2011: According to the payroll review from Oct 2010 - February 2011, and management/employees interview, factory has changed its wage payment system since Oct 2010. Factory now compares performance wage and minimum wage and pays the higher of the two. No insufficient minimum wage was detected during the visit.

PC visit August 1, 2011: PC had a face-to-face meeting with factory management team to talk about the compensation discrepancy issue. Factory administrative manager, [Employee name], was designated to a) take charge of the new wage system implementation and b) ensure wages below local minimum wage do not reoccur and that the compensation discrepancies' investigation and backpay for all existing employees as well is done; the estimated completion date is September 30, 2011. PC will schedule a follow-up visit for verification after completion.

PC audit December 29 & 30, 2011: Per factory management team, they already checked all existing employees' wages since January 2010; no wages below local minimum wage cases were detected for them. Also, the new wage system can prevent this violation from reoccurring. This issue can be closed.

Plan Complete: Yes

Plan Complete Date: 09/30/2011

Wages, Benefits and Overtime Compensation: Timely Payment of Wages

WBOT.4 All wages, including overtime compensation shall be paid within legally defined time limits. When no time limits are defined by law, compensation shall be paid at least once a month. (S)

Noncompliance

Explanation: About 80% of workers received wages on the 20th of each month for the payment of two months before, for example, workers received wages on August 20, 2010 for the payment of June 2010. Only office staff and temporary workers could get wages of last month on the 20th of each month.

Sources: payroll record review, employee and management interviews

Legal Reference: Article 7 of Payment of Wages Tentative Provisions

Plan Of Action:

1. Factory must pay all wages to employees in a timely manner as stipulated by local law.
2. Factory should post frequency of pay where employees can easily read/see it.

Deadline Date: 09/30/2011

Action Taken: PC visit on March 30, 2011: Since October 2010, payments have been made on the 30th of the next month as legally required. Factory entitled the regular checking of this to a worker representative named, [Worker representative name].

Sources: document review, employee and management and employee interviews

Plan Yes
Complete:

Plan 03/08/2011
Complete
Date:

Wages, Benefits and Overtime Compensation: Premium/Overtime Compensation

WBOT.10 The factory shall comply with all applicable laws, regulations and procedures governing the payment of premium rates for work on holidays, rest days, and overtime. (S)

Noncompliance

Explanation: 80% of workers were paid by piece rate; no premium rate was paid for overtime work according to local law. Local law states that at least 150/200/300% of normal wages for overtime work on normal working days/rest days/public holidays, respectively, should be paid. Monthly-paid workers were not paid at the legal rate on rest days, either.

Sources: January to June 2010 payroll record review, employee and management interviews

Legal Reference: Article 44 of China Labor Law

Plan Of Action:

1. Factory must compensate employees for overtime worked as required by local law.
2. Factory should have a clear written overtime policy and provide training to supervisors and employees.
3. For any overtime miscalculations identified in the audit, factory must recalculate and pay back the difference in wages to the employees.

Deadline 08/31/2012
Date:

Action PC visit on March 30, 2011:
Taken:

1. Factory agreed local minimum wage as monthly rate in labor contracts with all employees. Since October 2010, factory changed its wage payment to calculate all due wages (including OT, paid leave and holiday payment), according to the agreed local minimum wage, and to compare with that "performance wage," to pay whichever is higher.

Interviews and document review confirmed that "performance wage" is actually from either fixed monthly wage for some employees or piece rate basis for other employees, with no extra OT or paid leave wage. As a result, those paid fixed-monthly wage did not get OT pay and those paid piece rate did not get their OT and paid leave pay.

2. Through further communication between PC and factory management, factory plans to temporarily keep the current wage system. Factory administrative manager, [Employee name], is designated responsible for the new wage system establishment and implementation. By December 2011, the new wage system/policy will be set, and the following changes/details: a) performance wage canceled, b) hourly wages implemented, c) employees' basic salary increased to more than RMB 1200/Month, and d) OT work paid at 150/200/300% normal wage for OT work on normal work days/rest days/public holidays, respectively; and e) wage system/policy training for all employees will be provided for all employees to let them know the pay structure and OT policy.

Sources: document review, employee and management interview PC face-to-face meeting with factory management team to talk about compensation discrepancy issue

August 1, 2011: Factory administrative manager, [Employee name], was designated to a) take charge of the overtime miscalculations identified in the audit and b) recalculate and payback the difference in wages to the employees; the estimated completion date is 9/30/2011. PC will schedule a follow-up visit for verification after completion.

PCs audit December 29 & 30, 2011:

1. Remediation on the wage system mentioned above is still in planning. Affiliates' SMP team will keep this issue for further follow up.

2. Regarding the payback for OT fee discrepancy, per factory management team, they already recalculated the wages due (basic wage + OT pay) based on local minimum wage for all existing employees since January 2010. They compared it with actual payment, no matter if they were paid by piece rate or monthly rate, and found there is no underpayment. This issue can be closed.

Plan No
Complete:

Plan
Complete
Date:

Wages, Benefits and Overtime Compensation: Record Maintenance

WBOT.21 Employers shall ensure that all legally required payroll documents, journals and reports are available, complete, accurate and up-to-date. (P)

Noncompliance

Explanation: The factory could not provide any payroll records for the year 2009 for auditors' review.

Sources: management interviews

Legal Reference: Article 6 of Payment of Wages Tentative Provision

Plan Of Action: All time-keeping records, time cards, payroll records and other accounting documents must be retained on the factory premises for a minimum of 24 months.

Deadline Date: 09/30/2011

Action Taken: PC visit on March 30, 2011: Per factory management, records are kept at least 2 years as required by law. However, the reason they could not provide payroll records for 2009 was because those documents were sent to HK for a finance audit. Payrolls from October 2010 to February 2011 were on the premises and reviewed during the March 30, 2011 visit. Factory has assigned [Employee name], from the Finance Department, responsible for this remediation to ensure records are kept for 2 years in the factory, no matter what the reason may be. This issue can be closed.

Plan Complete: Yes

Plan Complete Date: 03/30/2011

Forced Labor: Employment Terms/Voluntary Agreement

F.3 Employment terms shall be those to which the worker has voluntarily agreed, in as far as those terms do not fall below provisions of local laws, freely negotiated and valid collective bargaining agreements, or the FLA Code. (P)

Noncompliance

Explanation: Factory did not sign labor contracts with 11 temporary workers. Sources: workers' labor contracts review; employee and management interviews

Legal Reference: Article 10 of China Employment Contract Law

Plan Of Action: Upon follow up, PC will ensure that temporary employees have signed labor contracts in their files. Additionally, coaching will be given to the dedicated person which covers what documentation should be collected for new hires, including temporary employees, and which training should be given.

Deadline Date: 09/30/2011

Action Taken: PC visit on March 30, 2011: PC had a coaching session with the factory administrative manager [Employee name]. PC discussed what kind of legal hiring and employment documents should be kept on file, including employee personal information forms, labor contracts, valid age verification documents, valid ID card copies, time/payment records, resignation records, punishment/awards records, insurance records, etc. It was also advised to keep these documents for temporary workers. Through employee and management interviews, it was confirmed that the factory knew those requirements well. Per factory management, the 11 temporary workers had already left the factory prior to the September 2010 FLA audit.

Since October 2010, there have been no more temporary workers hired at the factory. If the factory hires any temporary workers in the future, the HR department knows what documents should be kept on file. Also, no temporary employees were detected through document review or employee interviews during the March 30, 2011 visit. This issue can be closed.

Plan Complete: Yes

Plan Complete Date: 03/30/2011

Forced Labor: Employment Records

F.9 Employers shall maintain sufficient hiring and employment records to demonstrate and verify compliance with this Code provision. (P)

Noncompliance

Explanation: Factory did not keep any employment records for 11 temporary workers.

Sources: workers' employment files review; factory management interviews

Legal Reference: Article 50 of the China Employment Contract Law

Plan Of Action: All time-keeping records, time cards, payroll records, other accounting documents and any other employment records must be retained on the factory premises for a minimum of 24 months.

Deadline Date: 09/30/2011

Action Taken: PC visit on March 30, 2011: PC had a coaching session with the factory administrative manager, [Employee name]. PC discussed what kind of legal hiring and employment documents should be kept on file, including employee personal information forms, labor contracts, valid age verification documents, valid ID card copies, time/payment records, resignation records, punishment/awards records, insurance records, etc. It was also advised to keep these documents for temporary workers.

Through employee and management interviews, it was confirmed that factory knew those requirements well. Per factory management, the 11 temporary workers had already left the factory prior to the September 2010 FLA audit.

Since October 2010, there have been no more temporary workers hired at the factory. If the factory hires any temporary workers in the future, the HR department clearly knows what documents should be kept on file. Also, no temporary employees were detected through document review or employee interviews during the March 30, 2011 visit. This issue can be closed.

Plan Yes
Complete:

Plan 03/30/2011
Complete
Date:

Freedom of Association: Right to Freely Associate

FOA.2 Workers, without distinction whatsoever, shall have the right to establish and, subject only to the rules of the organization concerned, to join organizations of their own choosing without previous authorization. The right to freedom of association begins at the time that a worker seeks employment, and continues through the course of employment, including eventual termination of employment, and is applicable as well to unemployed and retired workers. (S)

Noncompliance

Explanation: FLA Comment: The Chinese constitution guarantees Freedom of Association (FOA); 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 FOA, 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. However, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms. The Amended Trade Union Act of Oct. 2001 stipulates 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. Trade unions also have an enhanced role in dispute resolution. In Dec. 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.

Monitor's note: There is no trade union at the factory, and there aren't any worker committees or parallel means in the factory.

**Plan Of
Action:**

In the Nike China 2008 CR report supplemental, we acknowledge that labor relations in China do not meet core ILO standards due to the maturity level of their industrial relations. We acknowledge a long-term, joint advocacy effort is needed to enable better labor relations in China. We have met with a number of global organizations, trade unions, non-governmental organizations and multi-stakeholder initiatives regarding our approach to industrial relations.

In 2008, we began implementing Human Resource Management workshops in a number of countries, including China to raise awareness and good labor practices.

1. Factory directed to communicate legally required employment terms to its employees.
2. Factory directed to establish and announce a formal communication channel between the management and workers in order to allow workers to voice workplace grievances, and to investigate and resolve such grievances in good faith.
3. Additionally, factory is encouraged to form a Worker Committee in order to facilitate dialogue between employees and management, including, but not limited to, grievances. Committee members are workers elected by workers to represent them when meeting with management. Meetings with management should be recorded in minutes for verification and follow-up purposes.

**Deadline
Date:**

12/31/2011

**Action
Taken:**

PC visit August 1, 2011:

PC had a face-to-face meeting with factory management team to talk about the issue. Factory administrative manager, [Employee name], was designated to take charge of:

- a) Establishing FOA policy
- b) Training on the policy to all employees and managerial supervisors, at the time of hire and on an ongoing (at least annually) basis
- c) Establishing an effective communication/grievance system between management team and workers, which should include: i) policy and procedures, multi-channels, dedicated person; ii) training to all employees and managerial staff; and iii) grievance/communication case investigation and treatment, record keeping, etc.

d) Helping to organize Worker Committee to facilitate dialogue between management team and workers, and ensuring all worker representatives are elected by workers themselves. The related meeting records should be kept for review. PC will schedule a follow-up visit to verify completion.

PC audit December 29 & 30, 2011:

1. Factory set up a labor union which was approved by local government June 30, 2011. Worker representatives in the labor union were voluntarily elected by workers themselves. The factory labor union will hold meetings or activities once a month from January 2012. All workers have the freedom to either take part in the labor union or not.

2. Furthermore, the grievance procedure was established and trained to all employees. The related grievance was treated and recorded well. Also the interviewed employees knew the grievance procedure well.

Sources: document review, employee and management interviews

Plan No
Complete:

Plan
Complete
Date:

Harassment or Abuse: Discipline/Review of Disciplinary Action

H&A.3 The disciplinary system shall include possibilities for workers to have disciplinary action imposed on them reviewed by someone at a higher managerial position than the manager who imposed the disciplinary action. In addition, such a system shall include the ability of a worker to appeal and/or question any disciplinary action against him or her and/or have a third party of his or her choice present when the disciplinary action is being imposed. (P)

Noncompliance

Explanation: The disciplinary system did not include the ability of a worker to appeal and/or question any disciplinary action against them and/or have a third party of their choice present when the disciplinary action was being imposed.

Plan Of Action: 1. The factory must add an appeals section to their disciplinary system/policy, in order for employees to appeal and/or question any disciplinary action against them.

2. Training on the new section, appeals, must be given to employees.

3. Training must be documented.

**Deadline
Date:** 09/30/2011

**Action
Taken:** PC visit August 1, 2011: PC had a face-to-face meeting with factory management team.
Factory administration manager [Employee name] was designated to take charge of:

a) Updating their disciplinary system to include appeals section

b) Giving training on the updated policy to all employees

c) Keeping related documents for review.

PC audit on December 29 and 30, 2011: The disciplinary system to include appeals section has already been updated. All employees were trained the updated policy in October 2011; the interviewed employees also well noted the update. This issue can be closed.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 10/01/2011

Child Labor: Hazardous Work for Young Workers

CL.7 No person under the age of 18 shall undertake hazardous work, i.e., work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of persons under the age of 18. (S)

Noncompliance

Explanation: A juvenile worker was assigned as a spraying operator, which is a hazardous post.

Sources: visual inspection, employee and management interviews

Legal Reference: Article 64 of China Labor Law

Plan Of Action:	A follow-up visit by the PC will: 1. Ensure the factory does not have employees under the age of 18 working in hazardous posts. 2. Verify that supervisors are trained on the factory's hazardous work in the factory and have been instructed not to allow juvenile employees in those positions. 3. The factory has assigned a designated person who will document managers' training and verify that juvenile employees are not working in hazardous positions.
Deadline Date:	09/30/2011
Supplier CAP:	Per factory, management will: 1. Establish written juvenile worker protection policy. 2. Give training on the policy to all employees and managerial supervisors. 3. Establish specific employment files for young workers to monitor their basic information, health check status, working hours and working conditions.
Action Taken:	<u>PC visit March 30, 2011:</u> The young worker was moved to a non-hazardous position on November 1, 2010. The employee later resigned from the factory on December 31, 2010. No other 16-18-year-old-workers were detected during the visit. Per factory management, the age policy in the factory is for workers at least 16 years old. They were also clear on how to protect 16-18-year-old-workers as required legally. However, there was no written protection policy for 16-18-year-old-workers. Sources: document review, management interviews <u>PC audit on December 29 and 30, 2011:</u> No young worker was detected in the factory. The written protection policy for 16-18-year-old-workers was established and communicated with HR related staff in December 2011. This issue can be closed.
Plan Complete:	Yes
Plan Complete Date:	12/01/2011

Code Awareness:

GEN.2 Ensure that all Company factories as well as contractors and suppliers inform their employees about the workplace standards orally and through the posting of standards in a prominent place (in the local languages spoken by employees and managers) and undertake other efforts to educate employees about the standards on a regular basis.

Noncompliance

Explanation: There was no Converse Code of Conduct (COC) posted. Workers were not orally informed of the code or code provisions at the time of induction or on an ongoing basis.

Sources: visual inspection, employment and management interviews

Plan Of Action: PC is currently translating the code of conduct that was recently approved for Nike, Inc. Once the Chinese version of the code is completed, it will be sent out to the factory. The factory should communicate its company regulations to workers in the local language spoken by employees through:

1. Posting factory regulations that can be easily be viewed by workers.
2. Conducting periodic training on the code of conduct and factory regulations to workers.
3. Training must be documented.

Deadline Date: 09/30/2011

Action Taken: The new COC was sent to factory by April 2011.

PC visit August 1, 2011: PC had a face-to-face meeting with factory management team. Factory administrative manager [Employee name] was designated to take charge of: a) posting the COC in the workshop; b) including the COC into pre-job and ongoing training projects for all employees, and c) keeping related documentation for review.

PC audit on December 29 & 30, 2011: The Converse COC is already posted in factory workshop public area for all employees. The COC was also included in factory training materials. This issue can be closed.

Plan Yes
Complete:

Plan 12/30/2011
Complete
Date:

Code Awareness:

GEN.3 Develop a secure communications channel, in a manner appropriate to the culture and situation, to enable Company employees and employees of contractors and suppliers to report to the Company on noncompliance with the workplace standards, with security that they shall not be punished or prejudiced for doing so.

Noncompliance

Explanation: There was no confidential noncompliance reporting mechanism that allowed factory workers to contact Converse.

Sources: visual inspection; employee and management interviews

Plan Of Action: PC's objective is to strengthen contract manufacturers' internal grievance systems, so that direct involvement by PC in employee grievances should be considered a last resort. In addition, PC Compliance staff spends time listening to factory employees during one-on-one confidential interviews during in-depth Management Audits.

1. The factory must establish a formal confidential grievance process.
2. The factory should implement a written investigation procedure, which clearly establishes the responsibility to investigate grievances, record complaint information and document the evidence/findings.
3. The factory should communicate to all workers how the system works, verify that workers have confidence in the system and communicate action taken.

Deadline 12/31/2011
Date:

Action Taken: PC visit August 1, 2011: PC had a face-to-face meeting with factory management team. Factory administrative manager [Employee name] was designated to take responsibility of establishing an effective communication/grievance system between management team and workers, which should include: a) policy and procedures, multi-channels, dedicated person; b) training to all employees and managerial staff; and c) grievance/communication case investigation, investigation findings, and maintaining records.

PC audit on December 29 & 30, 2011: The grievance procedure was established and trained to all employees. The related grievance was treated and recorded well. Also, the interviewed employees knew the grievance procedure well.

Plan Complete: Yes

Plan Complete Date: 12/30/2011

Health and Safety: Permits and Certificates

H&S.8 The employer shall at all times be in possession of all legally required and valid permits and certificates related to health and safety issues, such as those related to the purchase and storage of chemicals, fire safety inspections, inspection of machinery, and (chemical) waste disposal. (P)

Noncompliance

Explanation: 1. Factory could not provide Fire Safety Inspection Certificates for all buildings in the facility.

2. Factory could not provide Structure Safety Certificates for all buildings in the facility.

Sources: document review, management interviews

Legal References: Article 13 of the China Fire Prevention Law, Article 61 of the China Construction Law

Plan Of Action: In order to be in compliance with Article 13 of the China Fire Prevention Law and Article 61 of the China Construction Law, factory must:



1. Provide Fire Safety Inspection Certificates for all buildings in operation.

2. Provide Structure Safety Certificates for all buildings in the facility.

Deadline Date: 09/30/2011

Action Taken: PC visit March 30, 2011:

1. Fire Safety Inspection Certificate for production buildings was provided for review.
2. Structure Safety Certificate for all production buildings, including the dormitory, was available and reviewed.

Plan Complete: Yes

Plan Complete Date: 03/30/2011

Health and Safety: Evacuation Requirements and Procedure

H&S.9 All applicable legally required or recommended elements of safe evacuation (such as posting of evacuation plans, the installation and maintenance of an employee alarm and emergency lighting systems, ensuring aisles/exits are not blocked and that workers are not blocked within their workstations, employee education, evacuation procedures, etc.) shall be complied with. Workers shall be trained in evacuation procedures. Alarm systems shall be regularly tested and evacuation drills shall be undertaken at least annually. (S)

Noncompliance

- Explanation:**
1. There were no emergency lights in the machine repairing and the sample rooms.
 2. There were no fire exit markings for 2 exits of canteen.
 3. There was no emergency light installed in the passage to dormitory.
 4. Evacuation plans were not posted in most workplaces, except in the washing workshop.

Source: factory tour

Legal References: Article 11.3.1 of Code of Fire Safety on Building Design (GB50016-2006)
Article 11.3.4 of Code of Fire Safety on Building Design (GB50016-2006), Article 16 of
China Fire Prevention Law

Plan Of Action:	During a re-visit, PC will ensure that the following have been implemented: 1. Emergency lighting has been installed in the repair and sample rooms and in the hallways of the dormitories. 2. Emergency exits, in the canteen, should be clearly marked, well illuminated, and fitted with emergency lights. 3. Evacuation maps are posted in the local language, with the evacuation routes indicated by arrows. Evacuation maps should be in all prominent production areas. 4. Factory must conduct annual fire drills and ongoing fire safety training, both of which must be documented.
Deadline Date:	09/30/2011
Action Taken:	<u>PC visit on March 30, 2011:</u> 1. Emergency lights and exit signs were equipped at all emergency exits, including the repair rooms, sample room, and hallways of the dormitories. 2. The exits in the canteen are marked clearly and illuminated with emergency lights. <u>PC HSE audit May 4, 2011:</u> 1. Observed that evacuation maps are available in the production areas, evacuation routes were marked with illuminated tape, and all arrows are adequate. 2. Fire drills were conducted in the dormitory and production buildings. In March and June 2011, factory conducted fire drills and will keep this as a quarterly practice.
Plan Complete:	Yes

Plan 08/01/2011
Complete
Date:

Health and Safety: Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

Noncompliance

- Explanation:**
1. All workers who were working with chemicals in the painting workshop wore cotton masks that were not suitable for the potential chemical hazards in those workplaces.
 2. None of the workers in the washing workshop wore waterproof boots and gloves.
 3. None of the workers in the polishing workshop wore gloves.

Source: on-site observation

Legal Reference: Article 37 of Law of the People's Republic of China on Production Safety

- Plan Of Action:**
1. PPE should be provided to all workers.
 2. Factory management should promote workers' use of PPE at all times.
 3. The factory should conduct educational training sessions on proper PPE usage and its importance to respective workers.

Deadline Date: 09/30/2011

Action Taken: PC HSE audit May 4, 2011:

1. Factory conducted a PPE assessment and provided proper PPE (such as respirators, gloves, and aprons), for workers who are exposed to dusty and chemical environments.
2. In the washing workshop, workers are assigned waterproof footwear and anti-chemical gloves. Employees wore them in a proper manner.

3. Reviewed the training materials and found that factory provided PPE training to workers. Additionally, a walkthrough of the factory found workers wearing the PPE in proper manner.

Plan Yes
Complete:

Plan 05/04/2011
Complete
Date:

Health and Safety: Chemical Management and Training

H&S.13 All chemicals and hazardous substances shall be properly labeled and stored in accordance with applicable laws. Labels shall be placed in the local language and the language(s) spoken by workers, if different from the local language. Workers shall receive training, appropriate to their job responsibilities, concerning the hazards, risks and the safe use of chemicals and other hazardous substances. (S)

Noncompliance

Explanation: There was no second container for the chemicals stored in the chemical warehouse. There was no eye washing facility in the chemical warehouse and the workshops that involved chemicals.

Source: on-site observation

Legal Reference: Article 16 of Regulations on Safety Administration of Hazardous Chemicals

Plan Of Action:

1. Factory should have secondary containment barriers to prevent leakage from mixing and entering the environment.
2. Factory should have properly labeled chemical storage containers.
3. Warning signs should be posted near the chemical storage area.

Deadline 09/30/2011
Date:

Action Taken: PC visit August 1, 2011:

1. Factory has kept all secondary containment available from June 15, 2011, and labeled it clearly. Spill kits available to treat the spills or leakage.
2. Factory warehouse staff was trained on how to properly distribute chemicals on June 14, 2011. The warehouse staff has used safe containers to distribute chemicals since June 15, 2011.
3. Factory provided spill response equipment June 15 and posted warning signs.

Plan Complete: Yes

Plan Complete Date: 08/01/2011

Health and Safety: Material Safety Data Sheets/Worker Access and Awareness

H&S.14 Material Safety Data Sheets (MSDS) for all chemicals used in the factory must be available at the usage and storage sites of the chemicals, in the local language and the language(s) spoken by workers, if different from the local language. Workers shall have free access to MSDS. (P)

Noncompliance

Explanation: 1. MSDS for 70% of chemicals were incomplete. For example, there was no ingredient, CAS no., etc. in the MSDS of permanent powder CH-10.

2. MSDS were not kept on site for chemicals used and stored in the washing workshop, painting workshop and sample room.

Source: visual inspection, MSDS review

Legal references: 1) Article 3 of General Rules for Preparation of Chemical Safety Data Sheet (GB16483-2000) 2) Article 27 of Regulations on Safety in Workplaces Where Chemicals Are Used

Plan Of Action: 1. Ensure that the MSDS are complete and provide all the required and necessary information.

2. MSDS should be provided in the storage area and near the area where chemicals are used (washing, painting and sample rooms).

Deadline 09/30/2011
Date:

Action [PC visit August 1, 2011:](#)
Taken:

1. Factory contacted the chemical vendors for all the accurate and updated MSDS for chemicals used in the factory. This was completed on June 30, 2011.
2. Also on June 30th, all updated MSDS were posted in the storage area and in the washing, painting and sample rooms, the areas where they are being used.

Plan Yes
Complete:

Plan 08/01/2011
Complete
Date:

Health and Safety: Ventilation/Electrical/Facility Installation and Maintenance

H&S.17 All necessary ventilation, plumbing, electrical, noise and lighting services shall be installed and maintained to conform to applicable laws and in such a manner as to prevent or minimize hazardous conditions to workers in the facility. (S)

Noncompliance

Explanation: 1. Electrical wires were exposed and there was no safe cover for the electrical panel in the washing, painting and ironing workshops.

2. There were no safety covers for 8 exhaust fans in the painting workshop and 2 in the washing workshop.

3. Some wastewater channels in the washing workshop were not covered.

Source: visual inspection

Legal References: Article 4.4 of the General Guide for Electrical Safety (GB/T13869-2008), Article 6.1.6 of Code of Design of Manufacturing Equipment Safety and Hygiene.

Plan Of 1. Electrical wires must be in safe condition and avoid exposed wires.
Action:

2. All electrical panels with circuit breakers should be covered; each switch should be properly labeled in the local language spoken by employees.

3. All exhaust fans (8 in painting workshop, 2 in washing workshop) must be equipped with safe covers.

4. All wastewater channels in the washing workshop must be covered.

5. The factory should conduct periodic inspections of electrical wires, panels, exhaust fans, and wastewater channels.

Deadline 09/30/2011
Date:

Action PC visit March 30, 2011:

Taken: PC verified safe-guarding was used to cover all the exhaust fans.

PC audit May 4, 2011:

1. Covers for all electrical panels are installed and GFCI devices were equipped as well, to protect workers.

2. Factory used the wooden boards to cover the wastewater channels.

Plan Yes
Complete:

Plan 05/04/2011
Complete
Date:

Health and Safety: Machinery Maintenance and Worker Training

H&S.18 All production machinery, equipment and tools shall be regularly maintained and properly guarded. Workers shall receive training in the proper use and safe operation of machinery, equipment and tools they use. Employers shall ensure safety instructions are either displayed/posted near all machinery or are readily accessible to the workers. (S)

Noncompliance

Explanation: 1. 1 metal ladder with a height of 1 meter in the material warehouse was not equipped with a guardrail.

2. There was no safe cover for the washing machines with rotating belts in the washing workshop.

Source: factory tour

Legal References: Article 7.1.2 of Safety of Machinery - Permanent Means of Access to Machines and Industrial Facilities, Article 6.1.6 of Code of Design of Manufacturing Equipment Safety and Hygiene

Plan Of Action:

1. Factory must ensure that all ladders are equipped with guard rails.
2. Factory must train employees on fall protection in order to avoid injuries.
3. Factory must ensure that washing machines with rotating belts have safety covers.

Deadline Date: 09/30/2011

Action Taken: PC audit May 4, 2011: Machine guarding was installed to protect the workers from rotating belts and prevent injuries in the washing department.

PC visit August 1, 2011:

1. PC verified that factory has screened all climbing devices and that factory has added handrails to both the wastewater treatment plant platform and the ladder in the material warehouse on June 30, 2011.

2. PC reviewed records and found that training on machine guarding was given to employees.

Plan Complete: Yes

Plan Complete Date: 08/01/2011

Hours of Work: General Compliance Hours of Work

HOW.1 Employers shall comply with all local laws, regulations and procedures concerning hours of work, public holidays and leave. (S)

Noncompliance

Explanation: About 50% of workers worked more than 60 hours (up to 82 hours) per week in peak season, such as in the months from November 2009 to February 2010, and from June 2010 to August 2010.

Sources: September 2009 to August 2010 time record review, employee and management interviews

Plan Of Action:

1. Factory is to limit working hours to within the stricter limits of either the local labor law or Converse COC. In this instance, China's Local Labor Law limits are stricter; overtime hours are limited to 36 OT hours a month.
2. Every hour worked above 60 hours a week, but less than 36 OT hours a month, must be voluntary. This work is to be evidenced by the employee's signature not less than once each week, indicating a desire to work the additional hours.
3. PC will give guidance on how to avoid surpassing the overtime limit, i.e., having 2 or 3 shifts during peak season.
4. Per communication with factory, factory administrative/HR manager, [Employee name], will be responsible for calling a monthly meeting with the production and planning department to review the status of OT in month and production planning versus working hours for the next month, to ensure compliance in working hours.

Deadline Date: 09/30/2011

Action Taken: PC visit March 30, 2011: Working hours were under 60 hours per week, and 1 day off in 7 for all workers.

Sources: document review (time records, payroll, other production records checked from October 2010 to February 2011); employee and management interviews.

August 1, 2011: PC had a conference call with factory management team to talk about the compensation discrepancies. Factory administrative manager, [Employee name], is responsible for training their production planning and business staff on the working hours policy and the procedures to deal with mass production and urgent delivery. Training will be conducted by September 20, 2011

PC audit on December 29 & 30, 2011: Per interview with factory management/production planning staff and workers, all of them knew the working hours policy well. A document cross check found no working hours violation in the previous 12 months.

Plan No
Complete:

Plan
Complete
Date:

Hours of Work: Rest Day

HOW.2 Workers shall be entitled to at least one day off in every seven-day period. If workers must work on a rest day, an alternative day off must be provided within that same seven-day period or immediately following the seven-day period. (P)

Noncompliance

Explanation: Most workers only had 2-3 days of rest a month, except public holidays, and could not be guaranteed at least 1 day off in every 7-day period. For example, most workers worked from May 3 - June 15, 2010 consecutively or 44 days of work without 1 day off.

Sources: September 2009 to August 2010 time record review, employee and management interviews

Legal Reference: Article 38 of China Labor Law

Plan Of Action:

1. Factory must develop a policy whereby workers are scheduled at least 1 day off in every 7-day period.
2. Factory should develop a monitoring system to verify workers are scheduled at least 1 day off in every 7-day period.

3. Per communication with factory, factory admin/HR manager, [Employee name] will be responsible for calling a monthly meeting with production and planning department to review the status of OT in month and production planning versus working hours in next month, to ensure compliance in working hours.

**Deadline
Date:** 09/30/2011

**Action
Taken:** PC visit March 30, 2011: PC found working hours were under 60 hours per week, and 1 day off in 7 for all workers.

Sources: document review (time records, payroll, other production records review October 2010 to February 2011), employee and management interviews

August 1, 2011: PC had a conference call with factory management team to talk about the compensation discrepancies issue. Factory administrative manager [Employee name] is responsible for training the production planning and business staff on the working hours policy and procedure in order to deal with mass production and urgent delivery status. Training will be completed by September 20, 2011.

PC audit December 29 & 30, 2011: Per interview with factory management/production planning staff and workers, all of them knew the working hours policy well. A document cross check found no working hours violation in the previous 12 months. This issue can be closed.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 12/30/2011

Hours of Work: Time Recording System

HOW.6 Time worked by all workers, regardless of compensation system, shall be fully documented by time cards or other accurate and reliable recording systems such as electronic swipe cards. Employers are prohibited from maintaining multiple time-keeping systems and/or false records for any fraudulent reason, such as to falsely demonstrate working hours. Time records maintained shall be authentic and accurate. (P)

Noncompliance

Explanation: The working hour records were incomplete. Factory did not record the detailed working hours of temporary workers.

Plan Of Action: 1. Factory must maintain all time-keeping records, time cards, payroll records and other accounting documents on the premises for a minimum of 24 months, including those for temporary workers.

2. Per communication with factory, factory admin/HR manager, [Employee name] will be responsible for calling a monthly meeting with production and planning department to review the status of OT in month and production planning versus working hours in next month, to ensure compliance in working hours.

Deadline Date: 09/30/2011

Action Taken: PC visit on March 30, 2011: PC had a coaching session with the factory administrative manager [Employee name]. PC discussed what kind of legal hiring and employment documents should be kept on file, including employee personal information forms, labor contracts, valid age verification documents, valid ID card copies, time/payment records, resignation records, punishment/awards records, insurance records, etc. It was also advised to keep these documents for temporary workers.

Through employee and management interviews, it was confirmed that the factory knew those requirements well. Per factory management, the 11 temporary workers had already left the factory prior to the September 2010 FLA audit. Since October 2010, there have been no temporary workers hired at the factory. If the factory hires any temporary workers in the future, HR department knows what documents should be kept on file. Also, no temporary employees were detected through document review or employee interviews during the March 30, 2011 visit. This issue can be closed.

Plan Complete: Yes

Plan Complete Date: 03/30/2011

Hours of Work: Annual Leave

HOW.14 Employers shall provide workers with paid annual leave as required under local laws, regulations and procedures. (S)

Noncompliance

Explanation: The factory did not provide any paid annual leaves for workers according to the requirements of the local law.

Sources: payroll review, leave record review, worker interviews

Legal Reference: Article 3 of Regulations on Paid Annual Leave for Employees

Plan Of Action:

1. Factory should set legal leave policy and provide all legally required leave to all eligible employees.
2. According to local law, factory must pay workers for their sick, maternity, marriage, bereavement, annual, and injury leaves.

Deadline Date: 08/31/2012

Action Taken: PC visit March 30, 2011:

1. Factory has a set leave policy including sick, maternity, marriage, bereavement, annual, and injury leaves from October 2010 and has trained their workers well. However, per factory policy, employees only can take 1 day for funeral leave, not the 3 days as legally allowed; there is only 3 days for marriage leave, no more 10 days late marriage leave provided as required legally. Factory administrative manager [Employee name] is responsible for policy establishment and implementation.
2. Annual and maternity leave records were also reviewed during the visit.
3. However, per factory policy, employees can only take 1 day for funeral leave, not 3 days legally; and there are only 3 days for marriage leave, no more 10 days late marriage leave provided, as required legally.

Source: document review; employee and management interviews

August 1, 2011: Through further communication between PC and factory management, factory administrative manager [Employee name] is responsible for policy modification and implementation.

PC audit on December 29 & 30, 2011: Factory arranged annual leaves during Spring Festival for those entitled employees; however, there was no system/procedure to calculate and pay the unused annual leave for those employees who have resigned.

Plan Complete: No

Plan Complete Date:

Hours of Work: Sick Leave

HOW.19 Employers shall provide workers with sick leave as required under local laws, regulations and procedures. (S)

Noncompliance

Explanation: The factory did not set up policies on paid sick leave so that workers would be paid when they take sick leave as per legal requirement.

Legal References: Article 3 of Medical Treatment Period Provision of Corporation Employee Illness or Non Work-Related Injury, Article 24 of Regulation for the Payment of Wages in Guangdong Province (Implemented May 1, 2005).

Plan Of Action:

1. Factory should set legal leave policy and provide all legally required leaves to all eligible employees.
2. According to local law, factory must pay workers for their sick, maternity, marriage, bereavement, annual, and injury leaves.

Deadline Date: 09/30/2011

Action Taken:	<u>PC visit March 30, 2011:</u> 1. Factory has a set leave policy including sick, maternity, marriage, bereavement, annual, and injury leaves from October 2010 and has trained their workers well. However, per factory policy, employees only can take 1 day for funeral leave, not 3 days as legally allowed; there are only 3 days for marriage leave, no more 10 days late marriage leave provided as required legally. Factory administrative manager [Employee name] is responsible for policy establishment and implementation. 2. Annual and maternity leave records were also reviewed during the visit. 3. However, per factory policy, employees only can take 1 day for funeral leave, not 3 days legally; and there are only 3 days for marriage leave, no more 10 days late marriage leave provided as required legally. Sources: document review, employee and management interviews <u>August 1, 2011:</u> Through further communication between PC and factory management, factory administrative manager [Employee name] is responsible for policy modification and implementation. <u>PC audit on December 29 & 30, 2011:</u> Sick leave records reviewed indicated the policy implemented well. This issue can be closed.
Plan Complete:	Yes
Plan Complete Date:	12/30/2011
