



FAIR LABOR
ASSOCIATION_®

INDEPENDENT EXTERNAL ASSESSMENT REPORT



COMPANIES: Nike, Inc
Outerknown

COUNTRY: China

ASSESSMENT DATE: 10/16/17

ASSESSOR: Elevate

PRODUCTS: Apparel

NUMBER OF WORKERS: 763

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.

Findings and Action Plans

FINDING NO.1

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Responsibility & Accountability (Macro)

Finding Explanation

The factory does not have written definition for the responsible or accountable person(s) for all Employment Functions, or person who has the ultimate responsibility in the facility. However, responsibilities are partly defined informally.

Local Law or Code Requirement

FLA Workplace Code and Benchmarks (Employment Relationship Benchmarks ER.1)

COMPANY ACTION PLANS

Action Plan no 1.

Description

Alex/Yuan of HR dept have been discussed with other dept head to written definition for the accountability for all employment function & job description

Company Action Plan Update

06/28/18 : Alex/Yuan of HR dept have been discussed with other dept head to written definition for the accountability for all employment function & job description

FINDING NO.2

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Recruitment, Hiring & Personnel Development

Finding Explanation

The factory does not conduct performance review for any worker, either after probation period or periodically.

Local Law or Code Requirement

FLA Workplace Code and Benchmarks (Employment Relationship Benchmarks ER.1 and ER.29)

COMPANY ACTION PLANS

Action Plan no 1.

Description

Alex/Yuan of HR dept will be set up conduct performance review with workers during on/after probation period, we defined content of performance review with workers in written form & records.

FINDING NO.3

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Compensation

Finding Explanation

- 1.Through review of social insurance enrollment list and payroll records, it was found that all 477 workers were provided social insurance as legally required. However, the contribution base for 70% of workers was lower than their actual earning. For example, one worker earns a monthly wage of CNY 4399 (USD 666.52) with a contribution of CNY 377.78 (USD57.24) to the pension insurance; however, based on the local law and the worker's actual wage, the contribution should have been CNY 571.87 (USD 86.65).
- 2.The factory does not pay into the legally required Housing Provident Fund for any of the workers.

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 Benchmark ER.22, Compensation benchmark C.10)

Recommendations for Immediate Action

The factory should ensure all eligible employees are covered by all five types of social insurance schemes and receive all of their statutory welfare to comply with the Law.

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. Social Insurance had been completed 100% full compliance contribution for our employees on Dec, 2017. 2. Housing Provident Funds - Alex/Yuan of HR dept is committing to cover Housing Provident funds in gradually to 100% full compliance coverage on/before Jan, 01, 2019

FINDING NO.4

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Hours of Work

Finding Explanation

1. The working hours recording facility did not contain the identification of pregnant and lactating women or underage workers.
2. Based on the review of 32 time records from November 2016, June 2017, and August 2017, it was noted that 76% of the workers' monthly overtime working hours ranged from 43 hours to a maximum of 82 hours in August 2017 (most current month), and 82% of sampled workers' monthly overtime hours ranged from 38 to 81 hours in November 2016 (peak month). The average was 70 hours. The highest monthly overtime (82 hours) occurred in August 2017. The practice is in violation of both the local legal limit of 36 hours of overtime per month and the FLA limit of 60 hours of work per week.
3. The factory's monthly production schedule was calculated on the basis of 58 hours a week (including 2 hours overtime per day and 8 hours of Saturday work), which exceeds the normal working hours of 40 hours per week.

Local Law or Code Requirement

Labor Law of PRC, Articles 41; FLA Workplace Code and Benchmarks (Employment Relationship Benchmarks HOW.1, HOW.5 and HOW.7)

Recommendations for Immediate Action

- 1.Ensure that working hours do not exceed the legal limit of 36 hrs of overtime per month or FLA limit of 60 hours per week.
- 2.Arrange reasonable production plan that does not include overtime hours.

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. our factory doesn't have pregnant and lactating women or underage workers in currently. In future if related employees working in facility , HR dept will be reminded related workers entitle to their right as per employees handbook mentioned.
2. our management is committed to target on not exceed the legal limit of 36 hours of overtime per month in future, now our factory is controlling working hours not exceed 60 hours per week at the time.
3. our factory is enhance productivity by all the ways. recruiting more workers in production line, Improving our production systems as well to modernize our equipment of sewing machines. Reduce no potential client's orders & reserve more capacity to existing clients.

FINDING NO.5

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Industrial Relations

Finding Explanation

1. The factory had established a labor union and seven union representatives were elected in 2015. However:
 - o Union dues of all workers were paid for by the factory;
 - o Six out of seven union representatives were management and office staff;
 - o 60% of interviewees were not clear about the union representatives.
2. 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 International Labor Organization (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 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. 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 and Benchmarks (Freedom of Association Benchmarks FOA.2, FOA.10, FOA.11, FOA.12 and FOA.13)

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. Accord to China labor union law, 2% of the total salary for all employee will be paid to labor union as union dues.we will continue communicate with the workforce to let them known that they are responsible for the payment dues and they are freely to Participate in Union as their right. 2. Our Union election is conducted by supervision and guidance of authroized department in locally in 2015, The coming labor union elections will be held in April 2018, The election union representative also by the employees election in freely, the management does not participate in the election of union, the union representatives information

will be posted at notice board for employees would be aware at publication area.

FINDING NO.6

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Health & Safety

Finding Explanation

1. It was noted that factory did not have anti-leakage facilities for one barrel of sewing oil stored in sewing section.
2. It was noted that sewing oil and cleaner was used in sewing section without Material Safety Data Sheet (MSDS).
3. It was noted that the factory provided disposable masks but not anti-dust for two workers who worked in blowing section where there was a lot of cotton dust.
4. It was noted that two evacuation exit doors in packing section on 1/F of production building was rolling doors with fixed devices and two evacuation exit doors in the cutting section on 1/F of production building was rolling doors without fixed devices.
5. It was noted that one out of four exit indicators in the packing section on 1/F of production building was not illuminated and 90% indicating signs in the workshops were not illuminated.
6. There was no designated safe emergency assembly area or meeting point in the factory, however, workers knew the assembly points and meeting areas for evacuations.
7. It was noted that no warning sign was marked on two switch boxes on 2/F of production building.
8. As per the Occupational Hazardous Factor Regular Testing Report of December 2016, it was noted that the noise level in electric cutting section was 86.1DB, which was above the legal limit of 85DB.

Local Law or Code Requirement

Chemical Usage Safety in Work Place clause 27; Fire Safety of Building Design Regulation (GB50016-2014) article 6.4.11, article 10.3.5; PRC Work Protective Equipment Outfit Standard, 8; PRC Law of Prevention and Control of Occupational Disease, Article 15; Regulation for Safety of Dangerous Chemical article 20; Warning Sign in the Guidelines for Safety Signs and Usage GB 2894-2008, article 4.2.3; FLA Workplace Code and Benchmarks (Employment Relationship Benchmarks HSE.1, HSE.5, HSE.7, HSE.9, HSE.10 and HSE.13)

Recommendations for Immediate Action

1. Provide anti-leak containers for all chemical materials and conduct regular chemical safety inspection, and install the relevant safety facilities for its dangerous chemical material used.
2. Ensure that MSDS forms for all chemicals in use are available in local language and workers working with hazardous chemicals, like cleanser are provided with proper PPEs and using them effectively.
3. Provide proper anti-dust mask for all workers in blowing. Provide PPE training for these workers to ensure proper use of the masks.
4. Ensure that all factory doors in production area open in the direction of the evacuation section.
5. Ensure the exit indicators and indicating signs illuminate and are effective.
6. Designate safe emergency assembly areas and meeting points in the factory, and provide training for workers to know the assembly points and meeting areas in an evacuation.
7. Ensure that all electricity devices and circuit in the factory are marked with warning signs to avoid electric shock.

COMPANY ACTION PLANS

Action Plan no 1.

Description

- 1 all chemical materials to be stored at chemical storage , Dream of HSE Who is follow up this issued immediately.
2. Chemical storage had been posted MSDS , we are using soap water for cleaner instead of chemical cleaner in currently
3. we have been provided anti-dust mask to workers for work in blowing but 2 workers who didn't wear the mask against our requirement., however., Dream has been provided safety training with workers during that day immediately.
4. Being arranged to change the side hung doors instead of rolling doors on/after CNY holidays.
5. all major exit doors indicators should be illuminated w/effective , only auxiliary sign which hanged in workshop are no illuminate used.

6. Being marked safe emergency assembly areas & meeting point in factory on Oct,2017 immediately as well we will have periodic training on April/2018.
7. Being marked warning signs at all electricity devices immediately & reminded electrician to check in more frequency

FINDING NO.7

UNCORROBORATED RISK OF NON-COMPLIANCE

FINDING TYPE: Hours of Work

Finding Explanation

There were some inconsistencies and gaps identified in time records:

During factory tour, assessors observed that few production records were not kept on site and the records available onsite did not provide details of dates. Factory management representative stated that some records were digitized as the original paper documents (e.g., the daily production records of sewing section) were tattered.

On the visitor registry in the security booth, it was noted that two suppliers had delivered goods at 19:20 and 20:30 respectively on Oct 13rd, 2017, and the consignees identified on the record were Mr. X and Mr. Y from the warehouse. During the interview Mr. X stated that the supplier left the goods at the booth in his absence and that he didn't work overtime that day. He did, however, state that they occasionally need to unload goods for 2-3 hours at night and did not punch attendance cards. As for Mr. Y, there was nobody in the warehouse with that name.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.23)

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. As of past experience for compliance audit by 3rd parties /Fla(2014), sometime they found a worker who wrote mistaken on the dated record due to negligence to seen the wrong date at calendar, but it had been caused us inexplicable in front of auditors. so we improved the date on the record in digitized in order to avoid date written mistake appeared (please refer our production records attached) .

2. according to SCS rules required., all income parcels / goods to be inspected by security before delivery to consignee / warehouse. therefore., all the parcels does not delivered to sendee immediately , So it is no related in between the time of receipt the parcel or goods by security and whether or not overtime work of sendee. Founding A. Mr Y = 黄建明- he is a supervisor of Heat Transfer dept but not working in warehouse, so that why auditors who found nobody of Mr Y in the warehouse, 黄建明who had been worked overtime at 18:25 to 20:26 of 13/Oct according to attendance record. Founding B. Mr X = 刘帮 - he is a supervisor of warehouse & he didn't work overtime during on 13/Oct. so the goods had been left at security booth until he picked up at next day. He is not much overtime work unless unload goods in occasionally but it was took around 2 hours with ensure to punch attendance card for overtime paid in legally.

3. We are committed with Nike & all clients to comply the laws and regulations of China for compliance in legally.