



FAIR LABOR  
ASSOCIATION®

## INDEPENDENT EXTERNAL ASSESSMENT REPORT



COMPANIES: Fast Retailing Co., Ltd.

COUNTRY: China

ASSESSMENT DATE: 12/12/17

ASSESSOR: Elevate

PRODUCTS: Apparel

NUMBER OF WORKERS: 674

## 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: Recruitment, Hiring & Personnel Development

##### Finding Explanation

1. The factory has defined the responsible persons for all Employment Functions. However, these persons are not defined in writing. ER.1
2. There are no written job descriptions for most positions. ER.1
3. Management does not sign off, or show personal accountability, on the factory's policies and procedures. ER.1
4. The factory has not hired any disabled workers, which is a violation of the local legal requirements that state that at least 1.5% of the total workforce be comprised of disabled workers (11 workers out of 680 workers). Although the factory contributes to the Employment Security Fund in lieu of employing disabled workers as allowed under the local law, this practice carries the risk of discrimination as per FLA Workplace Code and Benchmarks. ER.14
5. There are no policies or procedures regarding the production workers' career paths or personnel development. ER.28
6. The performance review policies and procedures only focus on sewing workers instead of all production workers in the factory. In practice, the factory only conducts regular performance reviews for sewing workers. ER.29

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.14, ER.28, and ER.29)

#### COMPANY ACTION PLANS

##### Action Plan no 1.

##### Description

1. Factory had published the documents to appoint HR manager be the responsible persons for all employment functions. And distributed the notice to all the department and workshops.
2. Factory had made the detail JD for all the positions by HR manager, and review timely by HR and department manager.
3. Factory had appointed HR Yaohui be the person to sign off all the policies and procedures, maintain and update.
4. Firstly, factory will identify the positions which suitable for disabled workers. Secondly, factory will contact local disabled people's federation to post the position for disabled persons. If there are disabled persons to register for the factory, will give priority to employ.
5. Factory had established the employee promotion policy and procedure, and arranged the training for all the staff in April.

6. Other production workers' wage was based on the wages of sewing workers before, now factory is planning to establish other position's performance reviews protocol.

#### Company Action Plan Update

4. Factory had identified the suitable positions of disabled workers, the sewing position can hire deaf- mute disabled workers. Till Aug, 2019, factory had hired two disabled workers. Factory will contact local disabled people's federation to hire more disabled workers.

6. Factory had adjusted the wage structure, and add the performance bonus based on the efficiency

## FINDING NO.2

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Training (Macro)

##### Finding Explanation

1. The factory has not provided any regular specific training to the relevant supervisors or managerial staff on any of the Employment Functions. ER.17

2. The factory has not provided any specific or ongoing training to the general workforce on all of the Employment Functions except for Health & Safety. ER.1, ER.15, ER.25, ER.28, ER.29, ER.30

3. The factory does not provide a specific training to workers regarding legal requirements concerning leave and holidays. ER.1

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.15, ER.17, ER.25, ER.28, ER.29 and ER.30)

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

1. HR department had established the 2018 training plan for supervisors and managerial staff, the employment functions contents were included. Factory will arrange the training timely and keep the training records.

2. HR department is making the training material about FLA 9 modules, and plan to arrange the training to all the staffs and workers according to the training plan. On Feb.6th, factory had arranged the training to all the workers about annual leave policy and protect young workers and women workers policy and procedure.

3. Factory had arranged the annual leave policy and procedure trainings to all the employees( about 600 workers) on Feb.6th. And will arrange the training at least once a year. The sick leave, funeral leave regulations were updated in the employee handbook, factory arranged the training in June, 2018.

## FINDING NO.3

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Communication & Worker Involvement (Macro)

##### Finding Explanation

1. The worker involvement 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. ER.1, ER.16, ER.25, ER.29, ER.30, C.17

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.16, ER.25, ER.29, ER.30, and ER.32; Compensation Benchmark C.17)

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

Factory begin to add all staffs input and feedback on all the policies and documents. When factory needs to make new policy, will invite worker representatives to attend the meeting, and get the opinions and suggestions from workers. Factory will keep the meeting records.

#### Company Action Plan Update

Factory had established the worker involvement procedure, and the worker representatives meeting was hold on 2018/6/21

## FINDING NO.4

## SUSTAINABLE IMPROVEMENT REQUIRED

### FINDING TYPE: Review Process (Macro)

#### Finding Explanation

1. The factory does not periodically review its policies or procedures for any of the Employment Functions. The factory management stated they have conducted an annual internal review, but did not maintain any records. ER.1, ER.29, ER.30, ER.31

#### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks, ER.1, ER.29, ER.30, and ER.31)

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

Factory assigned factory manager and CSR manager and CSR specialist to do the internal audit in 2018/11/12-13, and provide the internal audit result.

## FINDING NO.5

## SUSTAINABLE IMPROVEMENT REQUIRED

### FINDING TYPE: Workplace Conduct & Discipline

#### Finding Explanation

1. The factory does not maintain any disciplinary records. According to factory management and worker interviews, the factory only gives verbal warnings and the warnings are not recorded. ER.2, ER.27

2. There is no third-party witness procedure during the imposition of a disciplinary action. ER.27

#### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.27)

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

1. Factory plan to arrange the assigned person to record all the disciplinary records included the verbal warnings.

2. Factory had updated the disciplinary procedure to include the requirement about third-party witness should be on site during a disciplinary action. The training to all the employees will be arranged by 9/30

#### Company Action Plan Update

Factory arranged the training to all of the 600 workers on 9/3/2018, and modify the <staff disciplinary records> form, add the requirement that the disciplinary records should be kept by factories, and should have witnesses on site.

## FINDING NO.6

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Compensation

##### Finding Explanation

1. The factory has the following shortcomings with its leave policy:

Article 2(4) in the Employee Handbook states that marriage leave, maternity leave, and statutory holidays follow the legal requirements, but does not provide further details. ER.22, C.17

2. The factory does not have specific procedures on paid annual leave or a policy that states that the factory takes into account workers' cumulative work experience (previous job experience prior to employment at the factory) when calculating annual leave as legally required. The factory could not provide any records to show that the actual practice of annual leave is in compliance with legal requirements. ER.22, C.17, HOW.11, HOW.14

3. The factory has changed the wage structure from an hourly rate to piece rate for sewing section workers, effective June 1st, 2017. A wage slip for a piece rate worker detailed the following: base wage RMB 730 (USD 115), normal working days and normal working hours, public holiday days, attendance wage (would be RMB 730 if full attendance), piece wage, overtime wage, full attendance bonus, deductions, and total wage paid. These slips are provided to each worker. The actual minimum hourly or monthly wages of sewing workers could reach the level of legal requirement, and overtime wages were 50%, 100%, and 200% of a worker's normal rate for overtime hours on normal week days, rest days, and public holidays, respectively. However, the normal rate of overtime wage for these workers is calculated as total piece rate wage divided by total working hours. For example, if the piece rate wage of one worker is RMB 1312.85 (USD 207), then the normal rate for overtime wage is RMB 1312.85 / 198 total working hours, which equals RMB 6.63 (USD 1.04) per hour which is below the local minimum wage standard of RMB 8.45 (USD 1.33). Based on the same example, overtime hours wage is (RMB 6.63 \* 0.5 \* 18 + RMB 6.63 \* 1 \* 36). Therefore, the overtime wages of 326 out of 369 (about 88%) sewing workers was insufficient. The gap ranged from between RMB 0.03 to RMB 85.9 per month. C.7

3. The factory has not paid the piece-rate workers' wages for October 1st to October 4th, 2017 when there was a holiday. ER.22

4. The factory does not pay into the legally required Housing Provident Fund for workers. C.10

5. Only 37 out of 640 (5.7%) employees were provided with pension, unemployment insurance, maternity, medical insurances, and work-related injury insurance. ER.22

6. The factory does not provide social insurances based on workers' actual wages. The social insurances are paid based on the local minimum contribution basis RMB 3179 (~USD 480.45) rather than the actual monthly wages for 4% workers which are above the local minimum contribution basis. C.1

##### Local Law or Code Requirement

Regulations on Employee's Paid Annual Leave of The People's Republic of China, Article 3; Labor Law of the People's Republic of China, Article 44, 51, 72; Social Insurance Law of the People's Republic of China, Articles 58 and 60; Regulation on the Housing Provident Fund Management (2002), Article 15; FLA Workplace Code (Employment Relationship Benchmark ER.22; Compensation Benchmarks C.1, C.7, C.10, and C.17; Hours of Work Benchmarks HOW.11, HOW.14)

##### Recommendations for Immediate Action

1. Update the annual leave policy to be in line with legal requirements and then train workers on the newly updated policy.

2. Ensure that all workers are paid overtime wages according to the law.

3. Pay workers' wages on public holidays according to the law. Immediately pay the piece rate workers for the wages they're owed for Oct 1-Oct 4, 2017.

4. Ensure that 100% of the workers are covered by the five categories of social insurance and the contribution base of social insurance is workers' actual earnings as legally required.

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

1/2. Factory had updated the employee book about the leave policy and annual leave policy. Add the requirements about cumulative work experience will be calculated in annual leave. And will begin to record the annual leave holiday. Arranged the training to all the staffs by 2018.

3. Factory now change to use time-rate instead of piece-rate, and some employees's productivity is low, so the wage is still under remediation.

4. Factory now did not have the plan to participate the housing provident fund for workers.

5. Factory plan to add more employee to participate of the social insurance.

2018/1: 10%, 2019/1: 15%, 2020/1: 20%, 2021/1: 25% 2022/1: 30%, 2023/1: 40%, 2024/1: 50%, 2025/1: 80%, 2026/1:100%

6. After 2026, the rate achieve 100%, factory will increase the contribution basis gradually.

#### Company Action Plan Update

1/2. Factory had arrange the training about employee handbook on 2018/6/27, the employee handbook included the annual leave regulation and provide the training record.

2. Factory had adjust the wage structure to timely wage + performance bonus, and from 2019.3, every workers had be paid according to the local law.

3. Factory had adjust the wage structure to timely wage + performance bonus, and from 2019.3, every workers had be paid the national holiday's wage according to the local law.

5. The total workers are 528, 76 workers are retired. Now 68 workers participate the social insurance, the rate is 15%, achieve the target of 2019.

6. After 2026, the rate achieve 100%, factory will increase the contribution basis gradually.

## FINDING NO.7

## IMMEDIATE ACTION REQUIRED

### FINDING TYPE: Hours of Work

#### Finding Explanation

1. Over the last 12 months, 95% of the workers' monthly overtime ranged from 50 hours to 68 hours, with an average of 54 hours, exceeding the monthly legal limit of 36 overtime hours during the period from June 2017 to October 2017. The highest monthly overtime (68 hours) occurred in October 2017. HOW.1

2. The factory's working hour records do not identify pregnant and lactating women or workers under the age of 18. HOW.5

3. Discrepancies were noted between production-related records and electronic time records. Therefore, working hours and payment status could not be verified during the assessment. For example, the sewing section material receiving records noted that there were working records on December 10th, 2017. However, the attendance records showed that the two workers in the materials warehouse rested on this day. Additionally, the cutting section production book noted that there was production on October 29th, 2017. However, the provided attendance records showed that the cutting workers in the cutting section rested on this day. The factory management representative stated that these discrepancies were due to human error and that the workers did not work on those dates. While the interviewed workers confirmed not having worked on those rest days, the factory could not provide any further evidence or proof, such as production records or CCTV footage (which was reportedly broken). Due to these inconsistencies, the assessors could not verify if the factory is in compliance with legal requirements and FLA standards. ER.2, ER.23, HOW.2

#### Local Law or Code Requirement

Labor Law of the People's Republic of China, Article 41; FLA Workplace Code (Employment Relationship Benchmarks ER.2 and ER.23; Hours of Work Benchmark, HOW.1, HOW.2, and HOW.5)

#### Recommendations for Immediate Action

1. Reduce the overtime hours to ensure it is within 36 hours per month.
2. Establish a monitoring system to identify pregnant and lactating women and workers under the age of 18.
3. Ensure that all time and payments records are complete and accurate.
4. Ensure that all workers have at least 24 hour consecutive hours of rest every seven day period.

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

1. Factory plan to appointed one HR to monitor the work time every workday. Every Thursday HR will report the work time to HR manager and production managers to adjust the last two days' working time. To reduce the weekly work time within 60 hours.
2. Factory plan to register the pregnant and lactating women and young workers, and will not arrange them to work overtime. HR will monitor the implementation.
3. Factory had assigned the HR person Yaohui to check the time record everyday. Workshop supervisors will monitor the working hour together with HR, to ensure the production records are accurate and be in accordance with time records.

##### Company Action Plan Update

1. Keep the method to control the working hours and plan to control 60 hours per week by 2019/12/31
2. Factory make a registration form for the pregnant and lactating women and young workers, and will not arrange them to work overtime. Till now, there is no pregnant and lactating women in factory. Only one young workers worked in factory, factory provide the registration form.

### FINDING NO.8

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Industrial Relations

##### Finding Explanation

1. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All China Federation of Trade Unions (ACFTU). According to the 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. FOA.2

#### Local Law or Code Requirement

FLA Workplace Code (Freedom of Association Benchmarks FOA.2)

### COMPANY ACTION PLANS

#### Action Plan no 1.



#### Description

Factory will comply the regulation and law of the Trade Union. If there is any updated, factory will arrange the training internally.

#### Company Action Plan Update

Factory trained more than 500 employees in accordance with the trade union law on June 8, 2019. And factory will conduct the workers congresses half a year and trained the employees about the new policy about trade union.

## FINDING NO.9

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Environmental Protection

##### Finding Explanation

1. The factory does not have a policy or procedures on Environmental Protection. There are no mechanisms to enable workers to raise environmental concerns, report environmental emergencies, or protect workers who allege environmental violations. ER.1, ER.31, HSE.1

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1 and ER.31; Health, Safety & Environment Benchmark HSE.1)

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

Factory had updated the environmental protection procedure. And arrange the training on 2018/6/27

## FINDING NO.10

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Health & Safety

##### Finding Explanation

1. The factory does not have a fire safety approval or registration for the two 2-story production buildings, the two 3-story office buildings, and the 1-story canteen building. (Note: One of the two 3-storey office buildings is not in use.) HSE.4

2. The factory failed to provide the Construction Safety Approval for the canteen building to the assessors. The building was built in 2010 and is about 1000 square meters. HSE.4

3. The emergency alarm in the factory does not have a backup battery. HSE.5

4. There is no exit sign affixed on one of the two emergency exits in the finished goods warehouse on the first floor of the production building. (Note: Factory fixed the issue on the first day of assessment.) HSE.5

5. The factory does not have marked safe emergency assembly areas/meeting points, although workers, thorough trainings, are aware of their assembly points/meeting areas in the event of an evacuation. HSE.5

##### Local Law or Code Requirement

Fire Prevention Law of the People's Republic of China, Article 11; Construction Law of the People's Republic of China, Article 61; Fire Safety of Building Design Regulation (GB50016-2014) Article 10.3.5; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.4 and HSE.5)

##### Recommendations for Immediate Action

1. Obtain the fire safety approval or registration for all buildings in factory.

2. Obtain the Construction Safety Approval for the canteen building.



3. Provide a backup battery for the fire alarm.
4. Ensure that exit signs are affixed on all emergency exits of finished goods warehouse.
5. Designate/mark safe emergency assembly areas/meeting points.

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

1. Factory had contacted the third party to arrange the fire safety inspection of all the building.
2. Factory had contracted the contractor to provide the construction safety approval.
3. Factory had installed the backup battery for all the emergency alarm. And arranged the EHS person to check every month.
4. Factory had installed the two emergency exits in the finished goods warehouse on the first floor of the production building. And arranged the EHS person to check every month.
5. Factory had marked the safe emergency assembly areas/meeting points. And notify all the workers. When arrange fire drills, all the workers will gather at the emergency assembly areas.

#### Company Action Plan Update

1. Factory had contacted the third party to do the report.
2. Factory asked the owner, and the owner provide the third party's construction safety report.
3. Factory had installed the backup battery for all the emergency alarm. And arranged the EHS person to check every month.
4. Factory had installed the two emergency exits in the finished goods warehouse on the first floor of the production building. And arranged the EHS person to check every month.
5. Factory had marked the safe emergency assembly areas/meeting points. And notify all the workers. When arrange fire drills, all the workers will gather at the emergency assembly areas.

## FINDING NO.11

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Health & Safety

#### Finding Explanation

1. The factory does not have an ergonomics program; it has not taken steps to reduce repetitive-motion induced stress or injuries. HSE.17
2. Individual workstations are not adjustable to fit individual workers, and the chairs do not have proper backrests. Also, anti-fatigue mats are not provided for standing workers. HSE.17
3. The factory's Health & Safety procedures do not have components to enable workers to raise Health & Safety concerns or protect workers who allege Health & Safety violations. ER.31
4. The factory has not trained workers in proper lifting techniques or provided them with necessary lifting belts. HSE.7, HSE.8, HSE.17
5. The factory did not provide the test report of the drinking water during the assessment. (Note: The drinking water source is the water utility company.) HSE.23

#### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.31, Health, Safety & Environment Benchmarks HSE.4, HSE.5, HSE.7, HSE.8, HSE.17, and HSE.23)

#### Recommendations for Immediate Action

1. Provide workers with lifting belts and train them in proper lifting techniques.
2. Ensure that the drinking water for workers is safe and sanitary.

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

1. Factory plan to establish the ergonomics program. And purchase the modern equipment to reduce the repetitive-motion of the operators. Factory will ask operators representatives to participate the establishing ergonomics program.
2. Factory will Learn the ergonomics knowledge, will conduct ergonomic assessment if there any unnecessary motions or any further actions in need.  
Factory is planning to adjust the machines, and purchase the chairs have proper backrests and anti-fatigue mats for standing workers. When purchase the chairs and mats, will invite the operators representatives to join.
3. Factory is planning to revise the health & Safety procedure to include the requirements of workers to raise health & safety concerns to protect workers who allege health & Safety violations. And arrange the training to all the workers about the procedure.
4. Factory is planning to train the workers about lifting techniques and provide the lifting belts for the related workers.
5. Factory had got the test report of the drinking water from local water supply Bureau.

##### Company Action Plan Update

1. Factory invited the worker representatives to participate in the development of the ergonomics program, and trained 500 workers about the new procedure on 2019/6/8
2. Factory adjusted the height of the machines, purchased the adjustable chairs and desk, and the chairs had backrest as well.
3. Factory had updated the the health & Safety procedure to include the requirements of workers to raise health & safety concerns to protect workers who allege health & Safety violations. The training to all the employees will arranged on 2018/6/27
4. Factory had purchased the lifting belts and arrange the training on 2019/6/8 for all the workers.
5. Factory will ask the report once a year from the local water supply Bureau.

### FINDING NO.12

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Health & Safety

##### Finding Explanation

1. The factory has not registered its two boilers and one forklift with the local special equipment management department. HSE.1

##### Local Law or Code Requirement

Special Equipment Safety Law of the People's Republic of China, Article 33; FLA Workplace Code (Employment Relationship Benchmark ER.31; Health, Safety & Environment Benchmarks HSE.4, HSE.5, HSE.17, and HSE.23)

##### Recommendations for Immediate Action

1. Apply for the registration for the boilers and forklift from the local special equipment management department to comply with law.

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

Factory had registered two boilers and one forklift. And arranged the check by EHS manager.