



FAIR LABOR
ASSOCIATION®

INDEPENDENT EXTERNAL ASSESSMENT REPORT



COMPANIES: adidas
COUNTRY: China
ASSESSMENT DATE: 11/10/16
ASSESSOR: Social Compliance Services Asia
PRODUCTS: Apparel
NUMBER OF WORKERS: 7332

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

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Recruitment, Hiring & Personnel Development

Finding Explanation

1. All new workers have to pay for the required medical check, about RMB 40 (USD 5.80) to RMB 55 (USD 8), during the recruitment process.
2. All new workers have a five-month probation period, which is in violation of FLA Code which states that the probation period shall not be longer than three months.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.6.2; Compensation Benchmark C.3)

Recommendations for Immediate Action

1. Ensure the factory covers all costs incurred by workers during the recruitment and hiring process.
2. Shorten the probation period to three months, as required by the FLA Code.

COMPANY ACTION PLANS

Action Plan no 1.

Description

After internal review by factory management team in December 2016, factory had below plans for remediation.

1. Factory will establish new policy to indicate that the medical check cost will be paid back to workers during the recruitment and hiring process. which will be effective from May 2017
2. Factory has revised the policy to be compliance with the requirement that the maximum probation period for new workers is 3 months, which became effective in December 2016. Currently, all the new workers' probation period have shorten to 3 months, and the records were properly maintained and kept in workers' personnel file. And factory will include the revised policy on 3 months probation period for new workers during new staff training.

Planned completion date

02/22/17

Company Action Plan Update

05/18/18 : The current remediation status is as following. 1. Factory had established clear policy to indicate that the medical check-up cost will be reimbursed to workers after probation period. Any worker who resigns during the probation period, the medical check-up cost will be paid back to them together with the last payment. And the implementation was effective from March 2017. The new policy training was provided for the HR recruitment team in April 2017, and it's also included into the new employees

training. 2. The policy on probation period of maximum probation period for new workers is 3 months has been included into the Workers Manual in March 2017. This new policy is also added into the new employees induction training. SEA has reviewed the training records for the new employees which are properly maintained. The remediation for these issues is completed.

FINDING NO.2

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Compensation

Finding Explanation

1. The factory has not calculated and paid out accumulated 2016 annual leave to resigned or terminated workers.
2. The final payments for resigned and terminated workers are paid out on the 10th of the following month, which is in violation of the legal requirement that outstanding wages shall be paid at the same time as when the labor relationship is rescinded or terminated. This practice however, was agreed to and confirmed by all resigned and terminated workers at the time of their resignation or termination.
3. The factory does not contribute to the legally required Housing Provident Fund for 37% of workers.

Local Law or Code Requirement

Implementation Measures for Employee Paid Annual Leave (2008), Article 12; Regulation of Guangdong Province on the Payment of Wages (2005), Article 13; Regulation on the Housing Provident Fund Management (2002), Articles 15, 19 and 20; FLA Workplace Code (Employment Relationship Benchmarks ER.19.1 and ER.22.1, Hours of Work Benchmark HOW.11; Compensation Benchmarks C.1, C.4, and C.10)

Recommendations for Immediate Action

1. Properly calculate and pay out to resigned workers any annual leave that workers have accumulated.
2. Ensure that all resigned workers are paid their final payment within the legally required time period.

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. Factory will update the internal annual leave regulation to make it clear that factory have to calculate and pay out accumulated annual leave for all the workers within the year. All the workers will be trained on the new regulation when it's effective from March 2017. And the related new regulation will also be posted at the notice board and also send out through SMS to all the workers. All the actions will be completed by April 2017. The Factory will calculate the incorrect payment of unused annual leave for all workers who have resigned in the year. Workers will be notified and given back-pay by April 2017. 2. In April 2017, adidas have already explained the Guangdong's regulation on final payout date, and factory has fully understood on the requirement. Factory is now reviewing the internal resignation process with their finance department to fulfill and align with the requirement. It was confirmed as of April that after the review with Finance, the factory shall enable the workers to receive all the payment on their last date. adidas will review the update in the next progress. 3. Factory had clear plan to progressively improve the coverage of the Housing Fund(HF) registration for all the workers started from 2015. The updated HF coverage is 60% in December 2016. And factory planned to provide 100% HF for all the workers by June 2017. Factory will continue to provide the trainings for all the workers on HF knowledge and the HF information will also be shared to all the workers through worker representatives meetings and interviews with workers. Planned Completion Date 07/30/17

Planned completion date

02/22/17

Company Action Plan Update

Previous Progress Update 05/18/18-12/06/17: 1. The factory has established a new annual leave regulation to specify that factory will calculate and pay out the accumulated annual leave for all the related workers within the year. This new policy has been implemented in March 2017. All new employees are also have been trained on the policy. For the existing workers, the policy has been posted at the notice board and also send out through SMS to all the workers during March and April 2017. The remaining annual leave will be informed to the workers during the workers resignation interview, the remaining annual leave days would clearly indicate on the resignation documents from March 2017. For the workers who have resigned in year 2016, factory had calculated the unused annual leave payment and paid back to those workers. This has been completed in January 2017. 2. After reviewing the internal resignation process with the teams of HR, Industrial Engineering, Finance and Production departments from March to September. The factory plans to complete the last payment calculation and transfer to the resigned workers within 48

hours of the last day. And now factory is in the process to switch and set up new calculation system, so this new process will start to be effective from January 2018. Factory will continue to make the efforts to close the gap, and adidas will review the progress during next updates. 3. The current Housing Fund(HF) registration for all the workers is 79.3% by September 2017. The current status is behind the original plan, as there're around 500 workers reluctant to purchase the HF. Factory will conduct the survey in November 2017 for the unpurchased employees to understand the reason, and provide more trainings to the rest of the employees according to the survey results. The new plan is to achieve 100% HF coverage before end of 2018. New Progress update 05/31/18: 1. Completed. According to the document review, factory now followed the set policy for the annual leave arrangement, they encouraged workers to use all the annual leave within the year. And for the workers who resigned and did not use all of the annual leave, factory paid the accumulated annual leave for them together with the last payment. The issue for this point is closed. 2. Currently, according to the review of the Factory's internal resignation process with the teams of Human Resource Department, Industrial Engineering Team, Finance and Production to understand the root-cause of why the factory is still unable to shorten the payment for workers who resign from factory. It was found that starting from January 2018 there has been the implementation of policy to pay to any resign employee within 7 days of the last day. Under this system, the factory is taken into account the whole package of wage including productivity bonus, which usually calculated based on a monthly's basis. After this, the factory will progressively shorten the last payment day, and the next plan is to pay the payment to the resigned workers within 3 days by end of 2018. 3. The current Housing Fund(HF) registration for all the workers is 85% as of April 2018. And according to the factory's improvement plan, the HF coverage will improvement and achieve 100% by end of 2018. It was found that the factory is making a good progress towards increasing number of employee to register Housing Funds. 11/20/2018 New progress updates, please refer to the attachment for the details actions.

adidas November 2018 Update:

1. Completed. during previous updates.

2. Per our review of the Factory's internal resignation process, the Human Resource Department, Industrial Engineering Team, Finance and Production departments worked to understand the root-cause behind why the factory was still unable to shorten the payment for workers who resigned from the factory. It was found that starting from January 2018, the factory implemented a new policy to pay the employee within 7 days after the resignation form is approved. In recent department meeting (Sept. 2018) between all the key functions for pay-roll for productivity and payment calculation, Human Resources confirmed the system has been shortened the period used to calculate workers' production bonus. The new system will be combined as part of employees' handbook update after approval by Group Senior Manager in November 2018. This new policy will ensure that all last payment calculations can be completed within workers' last working day, and workers can received the payment within 3 days (because of the system transfer delay). This will be updated during next audit.

3. The current Housing Fund(HF) registration for all the workers is 88% as of October 2018. And according to the factory's improvement plan, the HF coverage will improvement and achieve 100% by end of 2018.

adidas April 2019 update:

1. Completed. during previous updates.

2. Per departmental meeting held in September 2018 between pay-roll department (responsible for productivity incentive calculation) and the Human Resources department, it was confirmed that the system has shortened the period used to calculate workers' production bonus. The new system was updated as part of employees' handbook update after approval by Senior Manager in November 2018. The new system to shorten the payment period for workers who resign became effective on Nov. 1st, 2018. This new policy ensure that all last payment calculations can be completed within workers' last working day, and workers can receive the payment within 3 days (because of the system transfer delay). According to the pay-slip review of November 2018 to April 2019, there have been 321 workers resignation that received the last payment on the last day. The issue now can be closed.

3. The current Housing Fund(HF) registration for all the workers is 89% as of April 2019. Factory will continue to provide training to the remaining 11% of workers to share other workers' successful case to encourage them for the enrollment. According to the HR, it was confirmed a new deadline to meet 100% Housing Fund coverage is by end of 2019. This issue will be followed up again in the next update.

adidas November 2019 Update: 1. Completed. during previous updates.

2. Completed during previous updates.
3. The current Housing Fund(HF) registration for all the workers is 95% as of October 2019. Factory will provide the promotion training for the remaining 215 workers during November and December 2019 to encourage them for the enrollment. According to the HR, the original plan to achieve 100% housing fund enrollment by end of 2019 made slightly adjustment. The new plan is to achieve 100% housing fund coverage for all the workers by Q1 2020. This issue will be followed up during next verification.

adidas May 2020 update: 1. Completed. during previous updates.
2. Completed during previous updates.

3. The Housing Fund(HF) registration for all the workers achieved 100% from since February 2020. As the impact of COVID-19, the verification was done based on the HF registration receipt review for the pass 6 months from November 2019 to April 2020, and the management interview.

FINDING NO.3

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Hours of Work

Finding Explanation

1. Monthly overtime exceeded the legal limit of 36 hours for 90% of workers for the 12 months reviewed (November 2015 to October 2016) with an average monthly overtime of 85 hours and a maximum overtime of 98 hours in October 2016.
2. The factory's production plan always includes overtime; the factory plan includes 59 working hours per week, which includes regular overtime and Saturday overtime.

Local Law or Code Requirement

Labor Law of PRC (1995), Article 41; FLA Workplace Code (Hours of Work Benchmarks HOW.1.1 and HOW.6)

Recommendations for Immediate Action

1. Ensure workers do not work more than the legal limit of 36 hours of overtime per month.
2. Improve production planning and do not include overtime in the production plan.

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. Factory is strictly following adidas working hour requirement for working hour control, during the January to December 2016, the weekly working hour was all within 60 hours per week.
2. Factory will conduct the internal discussion with planning team to adjust the current means of setting production plan, that the production plan will not include the overtime hours.
3. Factory will continue to try to reduce the working hour and improve the efficiency.
 - (a) Factory SEA conduct random working hour inspection by weekly base to ensure the working hour is within 60 hours per week, and 11 hours per day.
 - (b) Electronic working hour system has the warning function if the actual weekly working hour is over 60 hours, the system will send the warning notice to HR team by email. Every Thursday the system will automatically send out the working hour weekly report to all the production department supervisors and HR department, the used OT hours will be highlighted in the report. The work arrangement for the rest of the week will base on it for adjustment, to ensure all of the workers working hour will not exceed 60 hours per week limit. The implementation and working hour control procedure was in place and implemented from January 1st, 2016.

If any over 60 hours per week working hour work in real need, it needs to apply and get the approval from factory senior management. And base on the working hour records from January to December 2016, the weekly working hour was within 60 hours.
 - (c) Factory worked closely with planning team to make proper forecasting and production planning to balance the capacity and the orders from the customers, to ensure the working hour was under control.
 - (d) Factory tried different ways to improve productivity and quality levels while reducing re-work and second quality ratios, such as using automation packing machines to reduce manpower, preventive maintenance to improve the quality.
 - (e) The factory will provide a written notification to the local Human Resource Department that works under the labor office that factory has willingness to be comply with the local working hour requirement, and factory will feedback to adidas on the

recommendation from the government within next 3 months.

Planned completion date

02/22/17

Company Action Plan Update

05/18/18 : 1. Factory is strictly following adidas working hour requirement for working hour control, during the January to September 2017, the weekly working hour was all within 60 hours per week. 2. Factory conducted the internal discussion with planning team to adjust the current means of setting production plan, unfortunately, the production plan still include the overtime hours, which was based on 58 weekly hours for the production planning. 3. Factory kept continuous monitoring on the working hour and improve the efficiency. (a) Factory SEA conduct random working hour inspection physically and the electronic working hour system to ensure the working hour is within 60 hours per week, and 11 hours per day. (b) Continue to work with planning team to make proper forecasting and production plan to balance the capacity and the urgent orders from customers, to ensure the working hour was under control. (c) Factory purchased more automation machines to improve the productivity and quality, such as auto cutting machines. Currently, 60-70% cutting process works were completed by auto-cutting machines. (d) After the communication with the local Human Resource Department, factory achieved the comprehensive calculation working hour approval document. Factory will conduct the continuous communication with the local government to achieve the permit on comprehensive working hour practice by annual base. adidas working hour standard is 60 hours per week, 1 day rest in 7 days work. And the maximum daily working hour is 11 hours.

07/18/17 : Will update later during next updates.

FINDING NO.4

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Termination & Retrenchment

Finding Explanation

The factory does not provide ongoing training for workers on Retrenchment.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.1.2)

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. Retrenchment and termination procedure is in place.
2. The training on retrenchment and termination procedure will be provided for both new workers and the existing workers, which will be started from Q1 2017, and the training will be completed by end of 2017.

Planned completion date

02/22/17

Company Action Plan Update

Previous Progress Update

05/18/18 : 12/06/17: 1. The retrenchment and termination procedure have been updated to specify the responsibility of the emergency working group in February 2017. 2. The training on retrenchment and termination procedure has been conducted for HR and SEA in April 2017. And the update trainings were also provided for the workers during Q1 & Q2 2017. Currently, the updated policy is not available for the workers, factory will post the relevant policy at the notice board from October for workers awareness.

07/18/17 : Will update during next follow-up audit

New Progress update

05/31/18: 1. This issue has been closed since the last audit.

2. Completed. According to document review, training on retrenchment and termination procedure has been conducted for Human Resources, SEA and the Administrative Department staffs in April 2017 and April 2018; the training records were properly maintained. This training already included as part of annual capacity building plans, which will be provided to the related employees. From October 2017 until now, factory has posted all updated policies at the notice boards in factory areas. Factory's internal compliance team has the specialist to provide answers to the questions raised by workers if they're not clear about new policy.

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Industrial Relations

Finding Explanation

1. The factory has a trade union under the ACFTU (All-China Federation of Trade Unions) that was established on December 29, 2015. Thirty-four (34) union representatives were elected by all workers in each department in November and December 2015. Although 22 of these 34 union representatives are workers (the other 12 are all supervisors and managers), four of the seven randomly selected union representatives being interviewed by assessors did not know that they were representatives for the union.
2. All workers are union members without their consent; the factory paid union dues on behalf of these workers (the dues were not deducted from workers' wages, the factory itself paid the dues). About 90% of the workers interviewed did not know that the factory was paying their union dues or that they were members of the trade union.
3. The factory has a Collective Bargaining Agreement (CBA) with the union. However, the factory does not post the CBA on a bulletin board or provide workers a copy. None of the workers interviewed were aware of the content of the CBA.
4. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All-China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations' mechanisms. The Amended Trade Union Act of October 2001 does stipulate that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.16.2, ER.25.1, and ER 26; Freedom of Association Benchmarks FOA.2 and FOA.10)

COMPANY ACTION PLANS

Action Plan no 1.

Description

Relationship between Management and Worker Representative(s)

Details

Factory has a Trade Union under the ACFTU (All-China Federation of Trade Unions) which was established on December 29, 2015. Thirty-four (34) union representatives were elected by all workers in each department in November and December 2015, 22 of these 34 union representatives are workers (the other 12 are all supervisors and managers), all workers are union members. The policy on Trade Union(TU) is in place, which indicates that the responsibility of the TU representatives includes working towards the improvement of workers' benefits, food quality, workplace safety improvements, ventilation system improvements, provide suggestion for production line layout to drive for the efficiency, workplace issues, including workers' grievances, etc. The policy was posted at the bulletin board at production workshop. The representatives of the TU will have monthly meeting to discuss all relevant issues.

In order to enhance the workers awareness on their own selection to be the member of the union, factory has below plans for improvement.

1. Adding the union application process as part of the company's orientation training courses from April 2017, to ensure all new workers have the understanding on factory union policy clearly.
2. Workers will be asked to sign a consent letter agreeing to join the Union and have union dues deducted once they join union. Factory management will deduct the union membership dues (2 RMB) from the workers' monthly payment from the 1st month they become union members. Membership dues will be transferred to the union's fund. The use of the money will be posted at the notice-board and be communicated to all workers via e-magazine. This practice is in accordance to the "Trade Union Law of the People's Republic of China" Chapter 5, article 42." Workers can choose to withdraw their union membership at any time at their own choosing. The implementation will start in May 2017.
3. The factory will continuously promote this intention all employees by communication via e-magazine on a monthly basis to ensure workers are aware. It will start from June 2017.

Factory will continue to have below improvement plans.

1. Continue to have all the union representatives to join the monthly meeting, and keep the meeting minutes;

2. Factory planed to provide training for the union representatives on how to improve the communication skill, which will be conducted in Q3-Q4 2017;
3. Include the awareness training on trade union introduction for all the existing workers, which is planned to completed in Q3-Q4 2017, the same topic training will also be included into orientation training.
4. The Collective Bargaining Agreement (CBA) will be posted at notice board for all the workers from February 2017.
5. Continue to involve the union representatives to join the internal safety audit to provide suggestion on working condition improvement, and keep proper records.

Planned completion date

02/22/17

FINDING NO.6

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Workplace Conduct & Discipline

Finding Explanation

1. The factory does not have policies or procedures on how to discipline supervisors, managers, or workers who engage in any form of harassment or abuse.
2. The factory's disciplinary procedures do not require a third party witness to be present during the imposition of disciplinary actions.
3. The records of disciplinary actions are maintained by the Human Resources department but not in workers' personnel files.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.2, ER.27.3.4, and ER.27.4; Harassment & Abuse Benchmark H/A.11)

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. Factory had included the policy on how to discipline supervisors, managers, or workers who engage in any form of harassment or abuse into "Workers Manual" in November 2016.
2. The policy and procedure on disciplinary was updated in November 2016, which now included the requirement that factory should require a third party witness signature during the disciplinary actions, such as Union. The related training will be provided for all the supervisors and managers in Q2 2017.
3. The records of disciplinary actions are now maintained in workers' personnel files, which was completed in December 2016.

Planned completion date

02/22/17

Company Action Plan Update

05/18/18 : 1. Factory had included the policy on how to discipline supervisors, managers, or workers who engage in any form of harassment or abuse into "Workers Manual" in November 2016. 2. The policy and procedure on disciplinary was updated in November 2016, which now included the requirement that factory should require a third party witness signature during the disciplinary actions, such as Union. The updates have been included into the "Workers Manual" in March 2017. The related update trainings had been provided for all the supervisors and managers in April 2017. And also provided the updates during the workers union and workers representative monthly meeting. The records were properly maintained. 3. The records of disciplinary actions are now maintained in workers' personnel files, which was completed in December 2016. The remediation for these issues is completed.

07/18/17 : Will follow-up later during next audit.

FINDING NO.7

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Environmental Protection

Finding Explanation

The factory does not provide ongoing training for workers on Environmental Protection.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.1.2)

COMPANY ACTION PLANS

Action Plan no 1.

Description

Environmental Protection training is included into orientation training for new employees and the yearly refresh training for all the workers. The training topics will include environmental laws and regulations training, cleaner production knowledge, which will be conducted in Q3 2017.

Planned completion date

02/22/17

Company Action Plan Update

05/18/18 : Environmental Protection training has added into the annual training programmed in 2017 for all the employees, the training implementation is as following. 1.Environmental Guidance and legal requirement training was conducted on August 7th 2017. 2.Garbage classification training was conducted during February 2017. 3. The training on clean production knowledge was conducted in April 2017. 4.Energy saving knowledge training was conducted in April 2017. The remediation for these issues is completed.

07/18/17 : Will update later during next audit.

FINDING NO.8

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Health & Safety

Finding Explanation

1. There are only two fire extinguishers available in the warehouse on the second floor of Building RB, which has an approximate area of 3000 square meters.
2. There is no second emergency exit in the following locations: the laminating workshop on the first floor of Building RB (which has an approximate area of 600 square meters and approximately 18 workers); the computerized stitching workshop (which has an approximate area of 280 square meters and approximately 28 workers); each of the semi-finished goods warehouses located on the first floors of Buildings A and B; and the raw chemical material warehouse (which has an area greater than 300 square meters).
3. One out of two emergency exits in the finished goods warehouse on the first floor of Building B and one out of two in the packing workshop on the second floor of Building RB were locked during working hours.
4. There were no emergency lights or lighted exit signs installed on one of the emergency exits in each of the following locations: the shoe last warehouse, raw chemical material warehouse, label room, silk printing workshop, the warehouse on the third floor of Building C, and on the second floor of Building RB. Additionally, the factory has not installed evacuation signs in the staircase of the production building or dormitory building, or along the wall or ground of the evacuation aisles in any of the workshops and warehouses in Buildings A, B and C. Furthermore, there were exit signs in the following locations that were not illuminated (five in total): first and third floor of Building C, third floor of Building B, the finished goods warehouse, and second floor of Building RB.
5. There are no evacuation maps posted in the raw chemical material warehouse, sample room, or the dormitory building. Additionally, the evacuation maps on the second and the third floor of Building C and the second floor of Building RB are posted in wrong direction or are not updated.
6. There was no fire alarm system installed in the warehouse on the second floor of Building RB, which has an approximate area of 3000 square meters. Additionally, there is no fire alarm system with warning lighting installed in any of the workshops of Building RB.
7. Approximately eight fire hydrants between Buildings A, B, and C are not inspected on monthly basis; the hydrants go as long as four months without being inspected.
8. The factory has a night shift, however, it does not conduct fire drills during this shift, which employs around 300 workers.

Local Law or Code Requirement

Code for Design of Extinguisher Distribution in Buildings (2005), Article 7.3.1; Code for design of building fire protection and prevention (2015), Articles 3.7.2, 3.8.2, 10.3.1, and 10.3.5; Fire Control Law of the People's Republic of China (2009), Articles 16 and 28; Code for Design of Automatic Fire Alarm System (2014), Articles 4.8.1 and 6.5.2; Regulation on Fire-safety Management for State Organs, Organizations, Enterprises and Institutional Organizations (2002), Articles 26 and 40; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.5, and HSE.6)

Recommendations for Immediate Action

1. Provide a sufficient number of fire extinguishers in all areas of the factory. Install at least 24 extinguishers in the warehouse on the second floor of Building RB.
2. Provide second emergency exits in the laminating workshop, computer stitching workshop, semi-finished goods warehouse, and raw chemical material warehouse.
3. Ensure all emergency exits in the workshops remain unlocked during working hours.
4. Install emergency lights and lighted exit signs at all emergency exits; install lighted evacuation indicating signs in the staircases of the production and dormitory buildings and in all evacuation aisles in workshops and warehouses.
5. Create and correctly post the evacuation maps in all workshops; regularly update maps.
6. Install a fire alarm system in the warehouse on the second floor of Building RB. Install a fire alarm system with warning lights in all workshops of Building RB.
7. Inspect all fire hydrants on a monthly basis
8. Ensure fire drills are conducted for workers who work the night shift.

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. Factory followed the legal requirement and adidas Health and Safety Guideline to provide the fire facilities in the 3000 square meters warehouse, which located on the second floor of Building RB, it provided 12 fire hydrants, 32 fire extinguishers and 1 hands-push type fire extinguishers at this area, which can ensure that at least 1 extinguisher (6 kg size) per 100 square meters, and distance from any worker to a fire extinguisher is less than 22.5 meters. The fire facility will keep internal inspection by weekly and monthly base, the records were documented. The issue was corrected in December 2016.
2. According to the Code of Design on Building Fire Protection and Prevention, Chapter 3.7, Safe Evacuation in Factory Buildings, it required "When meet the following conditions, factory can set one security exit; has an approximate area of 400 square meters and approximately 30 workers". And adidas Health and Safety Guideline, chapter 2.6, Exits, it required "the width and number of exit doors for a room or other section of the factory depends upon the number of workers in the room and not on the floor area. If the number of people is less than 30, one exit is required, which should keep > 0.75 meters width.", the following buildings condition meet the requirements.
 - (1) The computerized stitching workshop is on the 1st floor, the area is around 280 square meters with no more than 28 workers worked here, the width of emergency exit is 3 meters.
 - (2) The semi-finished goods warehouses is on the 1st floor, the area is around 300 square meters with no more than 15 workers work here, the width of the emergency exit is over 3 meters.
 - (3) The raw chemical material warehouse now has 2 exits available for this area, which was completed by March 31st 2017. And the fire permit for this area is available after document verification.
 - (4) Laminating workshop is on the 1st floor, the area is around 600 square meters with no more than 20 workers worked here, the width of emergency exit is over 3 meters, which meets adidas standard. In order to meet the legal requirement, factory will provide another exit at this area, which will be completed in June 2017.
3. Factory' has internal policy on fire safety management that all the exits in workshops during working hours should keep unlocked. In order to ensure the implementation is consistent with the policy on keeping all the exits unlocked, which already included into the daily inspection by the safety officers and 6S audit by monthly base, the inspection records will be maintained. And the fire safety training for all the supervisors and security teams was conducted in December 2016 to emphasis this requirement, related training records were documented.
4. Factory had installed the emergency lights and exits sign lights for all the missing areas in December 2016, and the total number installed was 151 emergency lights and exit signs lights, 113 lights for evacuation direction signs at staircases at workshop and dormitory. And the safety officers will conducted monthly inspection to ensure they're effective.
5. The evacuation maps were posted at all the exits where were missing, which included the area of the raw chemical material warehouse, sample room, the dormitory building. And the maps were updated for the second and the third floor of Building C and the second floor of Building RB.
6. The fire alarm system will be installed at engineering department, the warehouse at second floor of Building RB, and a fire alarm system with warning lights in all workshops of Building RB. The issue will be completed by May 2017.
7. Monthly inspection of fire hydrants is conducted by line supervisors and fire safety officers, and the records will be maintained. Training was provided for the fire safety security team in December 2016 as refresh training. Training records were documented. The issue was corrected in December 2016.
8. Fire drills for the night shift workers will be scheduled into 2017 Fire Drill Plan Schedule. The issue will be completed by June 2017.

Planned completion date

02/22/17

Company Action Plan Update

05/18/18 : 1. Factory followed the legal requirement and adidas standards to provide the fire facilities at all the workshop, dormitory, warehouse, canteen and the buildings in the factory area. The factory SEA team would conduct the monthly inspection to ensure all the fire facilities are maintained in good condition, the inspection records for the fire facilities were properly

maintained. 2. Factory provide the 2nd exit at the laminating workshop on the 1st floor according to the action plan, which was ready in September 2017. 3. Factory' has internal policy on fire safety management that all the exits in workshops during working hours should keep unlocked. Factory SEA would conduct the random inspection by monthly base to ensure the exits keep unlocked during working hours, the inspection records were properly maintained. 4. Factory had installed the emergency lights and exits sign lights for all the missing areas in December 2016. And the safety officers would conduct monthly inspection to ensure they're effective, and ensure the unworked emergency lights can be replaced immediately. 5. The evacuation maps were posted at all the exits where were missing, which included the area of the raw chemical material warehouse, sample room, the dormitory building. And the maps were updated for the second and the third floor of Building C and the second floor of Building RB. It's corrected in December 2016. 6. The fire alarm system had been installed at engineering department, the warehouse at second floor of Building RB, and a fire alarm system with warning lights in all workshops of Building RB. The issue was corrected in April 2017. 7. Monthly inspection of fire hydrants is conducted by line supervisors and fire safety officers, and the records will be maintained. Training was provided for the fire safety security team in December 2016 as refresh training. Training records were documented. The issue was corrected in December 2016. 8. Fire drills for the night shift workers had conducted according to the schedule, which was conducted in June 2017, the fire drill record was properly maintained. The remediation for these issues is completed.

07/18/17 : Will update during next verification.

FINDING NO.9

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Health & Safety

Finding Explanation

1. The factory does not provide secondary containers for the glue on the second floor of Building A and in the silk printing workshop.
2. The factory has not installed eye washing facilities in the silk printing workshop or sample workshop.
3. The ladders, which were higher than one meter, on the third floors of Building B and C were not equipped with hand rails.
4. The factory has provided only 23 hand-washing water taps for the 1564 female workers instead of 40 water taps (one tap for every 40 workers), as legally required.
5. The factory does not keep food samples for 48 hours, to protect against the risk of food poisoning, as legally required.
6. The factory could not provide assessors the fire permit for review for the following areas: the second floor of the engineering building, raw chemical material warehouse, the second floor of Building RB, the dormitory for top management, and the workers' dormitory.
7. The factory could not provide assessors the inspection report for Building Construction Projects Completion to review for the following areas: the second floor of the engineering building, Building RB, the raw chemical material warehouse, chemical warehouse, and the dormitory for top management and workers.

Local Law or Code Requirement

Regulation for Safety of Hazardous Chemical (2011), Article 20; Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases (2002), Article 26; Safety of machinery – Permanent means of access to machines and industrial plants, Part 3 (2008), Article 7.2.1; Health Standard for Design of Industrial Enterprises (2010), Article 7.2.4.1; Regulation on Hygienic of Food Industry and Delivery Unit of Group Meals (2005), Article 35; Fire Control Law of the People's Republic of China (2009), Article 13; Construction Law of the People's Republic of China (1998); Article 61; FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.4, HSE.9.1, HSE.14, HSE.20, and HSE.22.1)

Recommendations for Immediate Action

1. Provide secondary containers for all chemicals and conduct regular inspection.
2. Install the eye washing facilities in the silk printing workshop and sample workshop and conduct regular inspection.
3. Install handrails on the ladders.
4. Provide the sufficient number of water taps for female workers.
5. Keep food samples for 48 hours and regularly monitor for compliance.
6. Obtain the fire permits for all production and dormitory buildings in the factory.
7. Obtain the inspection report for Building Construction Projects Completion for all production and dormitory buildings in the factory.

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. After internal inspection and review by chemical department, all the liquid chemicals were provided with secondary containment. And this item will be included into the daily checking by chemical department and safety officers, and 6S audit by monthly base. Chemical safety training was provided for all the supervisors and managers in December 2016, the records were properly maintained.

2. Eye-wash facility will be installed by March 2017.
3. Handrails will be installed at the ladders which is higher than 1 meter in the factory.
4. According to the instruction of FLA, 18 water taps will be installed for female workers, 4 water taps to install on floor 1; 6 water taps on floor 2, 5 water taps on floor 3, and 3 water taps at floor 5.
5. Factory revised the policy for canteen management that the food samples should keep for at least 48 hours, which was implemented from November 2016. Canteen food safety training was provided to all the canteen workers on November 14th, 2016, the training records were documented. And the factory SEA team will conduct monthly inspection on canteen food safety.
6. Factory has reviewed the permit documents for all the buildings without legal permits within factory area, and factory has following plan to achieve the required permits for all the buildings.
 - (1) Factory had consulted with related local government departments on how to apply for the missing permits in December 2016, and will continue to collect more information until the permit achieved;
 - (2) Based on the information collected from the local government, factory will re-apply for all the missing permits for the buildings included Engineering Center, Managers Canteen, Managers Dormitory, 2nd floor of stock-fitting workshop; which will follow the below process for the re-application.
 - ① Land use permit -- ② Land planning permit -- ③ Blueprint adjustment and submission -- ④ Construction documents submission -- ⑤ Fire facility design permit, Design permit application -- ⑥ Construction permit -- ⑦ Acceptance check -- ⑧ Construction Filling Certificate -- ⑨ Achieve all the required permitsCurrently, factory now is at the process of ④, and the plan to complete the re-application for fire permit for all the missing permit buildings will be completed by end of October 2017. Factory will fully follow the requirement to achieve all the missing permits, however, the actual timeline will rely on related government schedule, which is not under factory control.

Planned completion date
02/22/17