



FAIR LABOR
ASSOCIATION®

INDEPENDENT EXTERNAL ASSESSMENT REPORT



Verification Assessment

COMPANIES: adidas
COUNTRY: China
ASSESSMENT DATE: 07/25/19
ASSESSOR: Openview
PRODUCTS: Apparel
NUMBER OF WORKERS: 387

Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

FLA Code Element	Number of Violations
Hours of Work	2
Employment Relationship	6
Health, Safety, and Environment	2

Previous Report Findings and Verification Results

PREVIOUS FINDING NO.1

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Hours of Work

Finding Explanation

1. The factory's working hours did not exceed the limit of 60 hours a week, and workers received one day off in every seven days. However, the average monthly overtime was 80 hours for at least 95% of workers in all production sections throughout the year, except in January and February (Chinese New Year falls in these two months). This exceeds the legal limit of 36 hours of overtime per month

Local Law or Code Requirement

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

Recommendations for Immediate Action

1. Ensure that the factory does not regularly exceed 36 hours of overtime per month.
2. Factory should implement better production planning to ensure that workers do not work more than 36 hours of overtime per month.
3. FLA affiliate Company's Sourcing and Social Compliance teams should: implement FLA Principles of Fair Labor and Responsible Sourcing, and accordingly coordinate on the topics mentioned below to help the factory address its excessive hours issue:
 1. How to provide better order forecasts to the factories;
 2. Possible workshops/consultancy for the factory on how to improve productivity/quality;
 3. Clear guidelines on how to extend shipment deadlines in case of contingencies;
 4. Steps that factory management must follow if overtime is inevitable (steps for how to communicate with the brand's Sourcing and Social Compliance teams);
 5. Clear guidelines on the calculation and setting of reasonable production targets that will not demand work beyond regular working hours or during breaks;
 6. Clear guidelines on how and when the factory can use subcontractors and/or temporary workers to avoid excessive overtime.

COMPANY ACTION PLANS

Action Plan no 1.

Description

- 1) Continuous ensure workers do not work more than 60 hours a week; OT within 80 hrs per month; one day off in every 7 days.
- 2) Improve forecasting and production planning to ensure a better production hours.
- 3) Try to explore ways to improve productivity and reduce working hours to meet local law requirement.

Company Action Plan Update

July 2020 Comments: Same as previous update. Voluntary overtime mechanism is in place and functional to ensure all overtime conducted on voluntary basis.

Factory has obtained waiver for Comprehensive Working Hour System which allows factory to conduct extended overtime and exceed the legal limit of 36 hour overtime per month. With such waiver, factory is strictly compliant with adidas requirement. The working hours have been well controlled. The average weekly working hours (regular and OT) was 52 hours in Dec 2019 and Mar 2020, 60 hours in Jan, Feb and May 2020. Due to the outbreak of COVID-19, the average weekly hours in Apr 2020 was 34 hours and 44 in Jun 2020.

As last update, factory is continuously taking below measures to enhance the control on work hours.:

1. Completed. Same as last update, tracking and monitoring has been conducted on monthly basis to ensure weekly work hour well controlled within 60 while daily overtime within 3 hours. The records are maintained properly for review.
2. Completed. Proper forecasting and production planning balance the capacity and orders as result of a sound system in place for planning and process allocation. Working hours are well controlled.
3. In Progress. Factory continues to improve productivity and quality levels while reducing re-work and second quality ratios:
 - (a) Developing and using automation packing machines, labeler, automatic stocking turner to reduce manpower, preventive maintenance to improve the quality. And now, by using more number of automation machines, factory suspend the recruitment for new workers. However, the productivity is increasing;
 - (b) Optimizing manufacturing process flow, such as sewing and checking socks, to improve efficiency, reduce barriers between departments and posts and reduce unnecessary activities.
 - (c) Adding integrated knitting machine: Finishing all during knitting, no need extra sewing process, which could improve efficiency and reduce the overtime.
 - (d) Under the impact of COVID-19 outbreak, measures have been taken against the order turndown to balance the work hour. Weekly work hours are now controlled within 40 hours.

Old Updates: 10/13/16 : "1. Factory keeps tracking and monitoring hours of work on a monthly basis to ensure workers do not work more than 60 hours a week; 2. Factory management establishes and implements effective internal monitoring procedure to ensure that working hours are within legal limits; 3. Factory can ensure hours of work limits are not exceeded and orders are accepted based on actual capacity by forecasting and production planning. 4. They also explore ways to improve productivity and quality levels (preventive maintenance, individual performance evaluation systems, etc.) while reducing re-work and second quality ratios. 5. Factory obtains comprehensive work hour approval from local government and the work hours are well controlled and compliant with the official approval. On going progress." "Factory has been implementing voluntary overtime mechanism to ensure workers have the right to refuse overtime and are not forced into overtime. Factory has been granted government approval for Comprehensive Working Hour System which allows factory to operate on extended overtime and breach the legal limit of 36 hour overtime per month. And factory was strictly following the brand requirement, government approval on the working hour control. In order to enhance working hour control, factory took below actions: 1. Factory kept tracking and monitoring working hour by monthly basis to ensure working hour was under the 60 hours a week, 11 hours a day; 2. 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. 3. 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. The issue is on-going"

VERIFICATION RESULT

Finding Status

Not Remediated

Remediation Details

1. (Not remediated) Through reviewing the time records from July 2018 to July 24, 2019, about 90% of workers' monthly overtime exceeded the legal limit of 36 hours per month in all reviewed months except February 2019, with an average of 80 overtime hours in a

month and a maximum of 90 overtime hours in December 2018 and March 2019 respectively. [HOW.1.1]

Local Law or Code Requirement

China Labor Law, Article 41. FLA Workplace Code (Hours of Work Benchmark HOW.1)

Recommendations for Immediate Action

1. Ensure overtime hours do not exceed 36 per month.

Action Plan no 2.

Description

Factory has been implementing voluntary overtime mechanism to ensure workers have the right to refuse overtime and are not forced into overtime.

Factory has been granted government approval for Comprehensive Working Hour System which allows factory to operate on extended overtime and breach the legal limit of 36 hour overtime per month. The factory has strictly been following the PC's social compliance requirement and government approval on working hours control. The average weekly working hours (regular and OT) for August was 56 hours in the Setting workshop and 48 hours in Packing and Scanning workshop.

In order to enhance working hour control, factory has been taking below actions:

1. Completed. Factory has continued to track and monitor working hours on a monthly basis to ensure working hours are kept under 60 hours a week, 11 hours a day. The records are maintained properly for review.
2. Completed. Factory has set up a mechanism to monitor the planning and allocation process which resulted in proper forecasting and production planning to balance the capacity and the orders from their customers with the aim to ensure the working hours are kept under control.
3. In Progress. Factory continues to improve productivity and quality levels while reducing re-work and second quality ratios:
 - (a) Developing and using automation packing machines, labeler, automatic stocking turner to reduce manpower, preventive maintenance to improve the quality. And now, by using more number of automation machines, factory suspend the recruitment for new workers. However, the productivity is increasing;
 - (b) Optimizing manufacturing process flow, such as sewing and checking socks, to improve efficiency, reduce barriers between departments and posts and reduce unnecessary activities.
 - (c) Adding integrated knitting machine: Finishing all during knitting, no need extra sewing process, which could improve efficiency and reduce the overtime.

Company Action Plan Update

July 2020: Same as previous update. Voluntary overtime mechanism is in place and functional to ensure all overtime conducted on voluntary basis.

Factory has obtained waiver for Comprehensive Working Hour System which allows factory to conduct extended overtime and exceed the legal limit of 36 hour overtime per month. With such waiver, factory is strictly compliant with adidas requirement. The working hours have been well controlled. The average weekly working hours (regular and OT) was 52 hours in Dec 2019 and Mar 2020, 60 hours in Jan, Feb and May 2020. Due to the outbreak of COVID-19, the average weekly hours in Apr 2020 was 34 hours and 44 in Jun 2020.

As last update, factory is continuously taking below measures to enhance the control on work hours.:

1. Completed. Same as last update, tracking and monitoring has been conducted on monthly basis to ensure weekly work hour well controlled within 60 while daily overtime within 3 hours. The records are maintained properly for review.
2. Completed. Proper forecasting and production planning balance the capacity and orders as result of a sound system in place for planning and process allocation. Working hours are well controlled.
3. In Progress. Factory continues to improve productivity and quality levels while reducing re-work and second quality ratios:
 - (a) Developing and using automation packing machines, labeler, automatic stocking turner to reduce manpower, preventive maintenance to improve the quality. And now, by using more number of automation machines, factory suspend the recruitment for new workers. However, the productivity is increasing;
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 - (c) Adding integrated knitting machine: Finishing all during knitting, no need extra sewing process, which could improve efficiency and reduce the overtime.
 - (d) Under the impact of COVID-19 outbreak, measures have been taken against the order turndown to balance the work hour. Weekly work hours are now controlled within 40 hours.

Previous Update:

Factory has been implementing voluntary overtime mechanism to ensure workers have the right to refuse overtime and are not

forced into overtime.

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 - (c) Adding integrated knitting machine: Finishing all during knitting, no need extra sewing process, which could improve efficiency and reduce the overtime.

PREVIOUS FINDING NO.2

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Health & Safety

Finding Explanation

1. Materials are blocking the electrical control boxes in the workshop and kitchen. Also, two electrical control boxes are not equipped with protective covers.
2. Two emergency exits in the workshop do not have illuminated exit signs.

Local Law or Code Requirement

General Guide for Safety of Electric User (2008), Article 6.5 and 6.7; Code for Design of Building Fire Protection and Prevention (2006), Article 11.3.4; FLA Workplace Code (Health, Safety & Environment Benchmarks, HSE.1, HSE.5.1, and HSE.13)

Recommendations for Immediate Action

1. Ensure that all of the electrical control boxes are properly covered and free from blockage.
2. Ensure that all emergency exit signs are illuminated at all times.

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. 1. Audit findings corrected on 2014.09.18.
2. Ensure that all of the electrical control boxes are properly covered and free from blockage and continuous training and physical check on daily base.
3. CR-42 Fire prevention procedure updated on 2014.10.10.
4. Ensure that all emergency exit signs are illuminated at all times and continuous training and physical check on daily base.

Company Action Plan Update

10/13/16 : "1. During the factory tour in Aug 2015, all electrical control panels were free from obstacles. 2. Daily check of the emergency light and exit is conducted by line supervisor. The checking for the emergency light and exit is also included in 9S audit, which is conducted on a weekly basis. 3. Fire safety trainings were provided to all workers on Nov 25 2014 and May 5 2015. Related records were documented. "

VERIFICATION RESULT

Finding Status

Remediated

Remediation Details

1. (Remediated) All electrical control boxes are free from obstructions and equipped with protective covers.
2. (Remediated) The factory has installed illuminated exit signs at all emergency exits in the workshops.

PREVIOUS FINDING NO.3

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Industrial Relations

Finding Explanation

1. The factory does not currently have a union, but it does have a Workers' Committee. It consists of 16 workers from production floor, who have been freely elected by the workers. Workers Committee meetings are conducted every 3 months and mainly concern topics such as food quality, event arrangements, etc.; however, the Committee is not effective and does not provide input to the management on matters pertaining to workers' welfare, remuneration, working hours, rest, vacation, etc.
2. Factory disciplinary policy ADM-03, Article 7.5.7.21, states that workers will be terminated if they urge workers to strike or participate in a strike.
3. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All China Federation of Trade Unions (ACFTU). According to the 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.

Recommendations for Immediate Action

1. Remove the clauses from the disciplinary policies that state that workers will be terminated if they urge workers to strike or participate in a strike.

COMPANY ACTION PLANS

Action Plan no 1.

Description

1. 1. Factory already removed the anti-strike clause from the disciplinary policy fm ADM-03.
2. Continuous communicates and interacts with Worker's committee and all employees regarding all factory policies.

Company Action Plan Update

10/13/16 : "ADM-03 is review and the anti-strike clause is already removed. And factory will communicate with all employees whenever there are changes of policy. Related communication records are documented. For the worker committee, the Worker Reps should take initiatives of communication with workers and understand their need. 1. The Worker Reps Committee will have regular worker-management meeting at least on quarterly basis; 2. Before the Worker-management meeting, the Work Reps should collect workers' concerns. 3. The concerns collected from workers are to be discussed during the meeting. 4. After discussion in the meeting, the committee should communicate the outcomes of the meeting with workers by posting meeting minutes. 5. Worker Reps

Committee will follow up the implementation of the issues discussed during the worker-management meeting. " "1. Factory has provided simple capacity building for the workers' representatives on communication skills to ensure they are clear with their roles and responsibilities. This capacity building for the workers representatives was to ensure they have clear understanding on their roles and responsibilities, and the skill on how to communicate with workers and management effectively. Trainings were conducted in April 2016. The training records were properly maintained. The next training will be conducted in December 2016. 2. The Worker Reps Committee will conduct regular worker-management meeting at least on a quarterly basis; 3. Company policies and major updates will be discussed in Workers -Management Committee meetings, such as revised the policies on ADM-03 Awards & Disciplinary policy. 4. Factory provided training in July 2016 on Industrial Dispute Handling Policy. 5. Factory plans to conduct the desktop drill on how to handle industrial dispute in October 2016. The issue is on-going. It will be reviewed again in the next audit follow up."

VERIFICATION RESULT

Finding Status

Remediated

Remediation Details

1. (Remediated) The factory established trade union on March 5, 2019. There are eleven union committee members freely elected by workers, one from factory management and others from production workers. The union committee had the first meeting on May 2, 2019 to discuss union management, workers' working conditions as well as welfare, and communicated the result to the factory management.
2. (Remediated) There is no clause related to workers being terminated if they urge workers to strike or participate in a strike based on the latest disciplinary policy ESP-ADM-004 issued on April 18, 2018.
3. (N/A)

New Findings and Action Plans

NEW FINDING NO.1

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Hours of Work

Finding Explanation

1. The factory does not provide one-hour rest time each day during work hours to workers who have been pregnant for more than seven months as required by local law. [HOW.4.1]
2. The factory production plan is based on 60 hours per week. Factory management sets production targets and production system at a level that workers need to work 20 hours of overtime per week. [ER.24]

Local Law or Code Requirement

Special Rules on the Labor Protection of Female Employees of Guangdong Province, Article 10. FLA Workplace Code (Hours of Work Benchmark HOW.4; Employment Relationship Benchmark ER.24)

Recommendations for Immediate Action

1. Provide one-hour rest time each day during work hours to female workers pregnant for more than seven months.
2. Set production plan based on regular working hours.

COMPANY ACTION PLANS

Action Plan no 1.

Description

Factory conducted immediate action as following to correct the issue.

1. In Progress. Provide 1 hour additional rest to employees who over 7 months pregnant.

- a. Completed. Factory completed the updates on policy ESP-ADM-003 of Employees Holiday Regulation on Aug. 1st, 2019; which include the new requirement of providing 1 hour of additional rest each day to employees who are over 7 months pregnant.
- b. In Progress. Factory will list out the pregnant employees so as to have close monitoring to ensure they have the additional 1 hour's rest.
- c. In Progress. Training on updates to the Employees Holiday Regulation was provided to pregnant employees in Aug. 2019. All workers are scheduled to receive training on these updates by Q4 2019.

2. Completed. Factory has revised the internal practice on setting the production plan on Sept. 1st, 2019. The production plan is based on regular working hour to make the production arrangement. Training on the revised requirement was provided to the line supervisors and production management on Sept. 17th, 2019.
Based on above, it's recommended to close this issue.

Company Action Plan Update

July 2020: Factory conducted immediate action as following to correct the issue.

1. Completed. One-hour break were provided to eligible employees with over 7-month pregnancy.
 - a. Completed. as verified last update.
 - b. Completed. Tracking sheet is developed with monthly monitoring and updates conducted to ensure eligible employee enjoy the legally required benefit.
 - c. Completed. After one training provided to pregnant employees in Jul 2019, another training was provided to all employees as scheduled in Nov 2020. Next training has been schedule to conducted on July 7.
2. Completed. as verified last update.

Prior Update: Factory conducted immediate action as following to correct the issue.

1. In Progress. Provide 1 hour additional rest to employees who over 7 months pregnant.
 - a. Completed. Factory completed the updates on policy ESP-ADM-003 of Employees Holiday Regulation on Aug. 1st, 2019; which include the new requirement of providing 1 hour of additional rest each day to employees who are over 7 months pregnant.
 - b. In Progress. Factory will list out the pregnant employees so as to have close monitoring to ensure they have the additional 1 hour's rest.
 - c. In Progress. Training on updates to the Employees Holiday Regulation was provided to pregnant employees in Aug. 2019. All workers are scheduled to receive training on these updates by Q4 2019.
2. Completed. Factory has revised the internal practice on setting the production plan on Sept. 1st, 2019. The production plan is based on regular working hour to make the production arrangement. Training on the revised requirement was provided to the line supervisors and production management on Sept. 17th, 2019.
Based on above, it's recommended to close this issue.

NEW FINDING NO.2

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Compensation

Finding Explanation

1. The factory pays annual leave at the rate of local minimum wage instead of worker's average monthly wage over the past twelve months. [HOW.14]
2. The factory pays maternity leave at the rate of local minimum wage instead of worker's average monthly wage over the past twelve months. [ER.22.1]

Local Law or Code Requirement

Implementation Measures of Employees' Paid Annual Leave, Article 11; Special Rules on the Labor Protection of Female Employees of Guangdong Province, Article 13. FLA Workplace Code (Hours of Work Benchmark HOW.14; Employment Relationship Benchmark ER.22)

Recommendations for Immediate Action

1. Provide sufficient compensation for annual leave as per legal requirement.
2. Provide sufficient compensation for maternity leave as per legal requirement.

COMPANY ACTION PLANS

Action Plan no 1.

Description

Factory conducted immediate action to correct the issues.

1. Employee Holiday Policy (with the document number of ESP-ADM-003) was updated and became effective on Aug.1st, 2019. The updates included following:

- a. The calculation of payment for annual leave is now based on the average of the monthly wage from last 12 months (excluding the OT wage).
- b. The maternity leave wage is based on the average monthly payment from the previous 12 months prior the beginning of the maternity leave.

The updated policies were posted at the factory workshop and training on such was provided to workers in Aug.2019.

2. Payment doc. review from Aug. 2019 confirmed that factory has implemented the wage calculation for these types of workers with correct amount of wage.

Based on above remediation, the issue is recommended to be closed.

Company Action Plan Update

Factory conducted immediate action to correct the issues.

1. Employee Holiday Policy (with the document number of ESP-ADM-003) was updated and became effective on Aug.1st, 2019. The updates included following:

- a. The calculation of payment for annual leave is now based on the average of the monthly wage from last 12 months (excluding the OT wage).
- b. The maternity leave wage is based on the average monthly payment from the previous 12 months prior the beginning of the maternity leave.

The updated policies were posted at the factory workshop and training on such was provided to workers in Aug.2019.

2. Payment doc. review from Aug. 2019 confirmed that factory has implemented the wage calculation for these types of workers with correct amount of wage.

Based on above remediation, the issue is recommended to be closed.

NEW FINDING NO.3

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Health & Safety

Finding Explanation

1. The factory has not installed visual fire alarms in knitting workshops on the 5th floor to the 7th floor in Production Building F, where there is a high noise level. [HSE.5.1]

2. About 50% of the evacuation maps in both the production workshops and dormitory buildings are inconsistent with the actual layout. [HSE.1]

Local Law or Code Requirement

Escape and Evacuation-Principles and Requirements (GB/T 25894-2010), Article 5.10 and Article 5.11. FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1 and HSE.5)

Recommendations for Immediate Action

1. Install visual alarm system in areas where noise level is high.

2. Ensure evacuation maps are consistent with the actual layout.

COMPANY ACTION PLANS

Action Plan no 1.

Description

Factory conducted immediate action to correct the issues.

1. Factory completed the installation of visual fire alarm system in the knitting workshops on the 5th floor to 7th floor in production building F on Sept. 6th, 2019.
2. Factory conducted the inspection for all the factory area (including workshops and dormitory) where the floor maps are posted, The maps which did not match with the actual layout were all amended to be consistent. Factory will include the floor map inspection into the daily fire safety inspection to ensure the floor maps are updated timely in the event of any layout changes. The issues above are completed and can be closed.

Company Action Plan Update

Factory conducted immediate action to correct the issues.

1. Factory completed the installation of visual fire alarm system in the knitting workshops on the 5th floor to 7th floor in production building F on Sept. 6th, 2019.
2. Factory conducted the inspection for all the factory area (including workshops and dormitory) where the floor maps are posted, The maps which did not match with the actual layout were all amended to be consistent. Factory will include the floor map inspection into the daily fire safety inspection to ensure the floor maps are updated timely in the event of any layout changes. The issues above are completed and can be closed.