



2010

FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL MONITORING REPORT

COMPANY: New Balance
COUNTRY: China
FACTORY CODE: 9700491189I
MONITOR: Level Works Limited
AUDIT DATE: November 18 – 19, 2010
PRODUCTS: Garments
PROCESSES: Cutting, Sewing, Finishing,
Ironing, Inspecting, Packing
NUMBER OF WORKERS: 220

Company Comment: In March 2011, New Balance created and delivered a remediation plan and training to the factory to address issues raised by the IEM audit. However, shortly thereafter, New Balance sourcing decided to cease working with the factory due to changing production needs. As a result, New Balance is unable to verify successful implementation of the remediation plan.



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

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

Noncompliance

Explanation: Only 29 out of 270 employees participated in retirement, medical and work-related injury insurances; 22 participated in unemployment and childbearing insurance without any written waiver obtained from the local social insurance bureau. (Remark: Factory provided commercial accident injury insurance for all employees.)

Sources: document review, management interviews

Legal Reference: PRC Labor Law, Article 72

Plan Of Action: New Balance's (NB) last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:

Supplier CAP: Factory Response, March 2011: Currently a total of 276 employees are hired in our company. 276 workers participated in work-related injury insurance; 179 employees participated in retirement, medical, unemployment and childbearing insurances. This practice meets the requirement of the local authority. In the future, the ratio of participation in social insurance will be increased gradually. We have a waiver from local authority and an invoice for the social insurance payment. Estimated date for 100% participation in 5 types insurance is March 2011.

Supplier CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Wages, Benefits and Overtime Compensation: Timely Payment of Wages

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

Noncompliance

Explanation: All workers received wages around 34-41 days after the work period. For example, September 2010's wages were paid around November 4, 2010.

Sources: worker interviews

Legal Reference: PRC Labor Law, Article 50

Plan Of Action: NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:

Supplier CAP: Factory Response, March 2011: Factory management promised that the wages will be paid within 30 days after the end of the month. This practice has been specified in the Employee Manual. A sample of the payroll journal has been sent for review.



Supplier
CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Wages, Benefits and Overtime Compensation: False Payroll Records

WBOT.19 Employers shall not use hidden or multiple payroll records in order to hide overtime, to falsely demonstrate hourly wages, or for any other fraudulent reason. Payroll records maintained shall be authentic and accurate. (P)

Noncompliance

Explanation: "Overtime hours," "overtime wages," and "minimum wages" issues could not be verified due to the inconsistencies identified in attendance and production records. (Please see HOW.6 for details.)

Sources: document review, worker interviews

Plan Of Action: NB would like the FLA to identify and engage the "other customers" in creating a factory requirement of off-books OT hours logging to discourage this factory from creating double books. NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:



Supplier CAP: Factory Response, March 2011: Because of other customers' requirements on compliance and strict limitation of working hours, not all OT was showed in the time records. After the audit, the policy for wage and working hours in the Employee Manual was revised; the importance of accuracy in work hours was reiterated. Factory management was also trained on the revised policy for wage and working hours. HR staff were required to verify attendance records against production records periodically, to ensure that all working hours were recorded accurately. An document including the handbook's revised policy for wage and working hours and broken needle records have been sent for review.

Supplier CAP Date:

Action Taken: From November 2010 to March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Wages, Benefits and Overtime Compensation: Record Maintenance

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

Noncompliance

Explanation: No payroll records were provided for review and only 3 months (May-July 2010) of manual attendance records were available. As the employee in charge of keeping documentation was on personal leave, overtime hours, overtime wages, and minimum wages issues could not be verified.

Sources: document review, management interview

Legal Reference: Provisional Regulations for the Payment of Wages, Article 6

Plan Of Action: NB does not accept factory's excuse for not providing payroll records during the FLA IEM. NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:

Supplier CAP: Factory Response, March 2011: To avoid the reoccurrence of a similar case, the person in charge of keeping payroll documents was required to give their supervisor a key to their locker. Therefore, in case this person is not in the office, the documents are still available.

Supplier CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Yes
Complete:

Plan 08/27/2012
Complete
Date:

Wages, Benefits and Overtime Compensation: Worker Wage Awareness

WBOT.22 Employers shall make every reasonable effort to ensure workers understand the wages, including the calculation of wages, incentives systems, benefits and bonuses they are entitled to in a factory and under applicable laws. To this end, employers shall communicate orally and in writing to all workers all relevant information in the local language or language(s) spoken by the workers, if different from the local language. (P)

Noncompliance

Explanation: Factory did not communicate relevant wage calculation information to workers orally or in writing. None of the workers understood their wage calculations.

Sources: worker and management interviews

Plan Of Action: NB did find records of Employee Handbook wage calculation information for communication with workers during last audit. NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline
Date:

Supplier CAP: Factory Response, March 2011: The policy for wage and working hours in the Employee Manual has been revised since the (FLA) audit; the revision included the calculation of wages. Employees were trained on the revised policy for wage and working hours. A pay slip was also provided to employees, so they are able to get the necessary information on wages.

Suggested deadline: December 2010.

Supplier
CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with the factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Forced Labor: General Compliance Forced Labor

F.1 Employers shall comply with all local laws, regulations and procedures concerning the prohibition of forced labor. (S)

Noncompliance

Explanation: If employees in the technical department did not work the night OT arranged by the factory for an hour, RMB 7 would be deducted from them.

Sources: factory rule review, document review, management interviews

Legal Reference: PRC Labor Contract Law, Article 31

Plan Of Action: NB did not find this rule during last internal audit. NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:

Action Taken: Factory Response, March 2011: This rule has been cancelled since the audit, as although there was such a rule, it had not been really implemented. Revision date: November 25, 2010 From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with the factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Forced Labor: Other - Forced Labor

Other

Noncompliance

Explanation: No labor contracts were provided for review. The employee in charge of keeping the documentation was on personal leave; there was no one to replace them.

Sources: document review, management interview

Legal Reference: PRC Labor Contract Law, Article 10

Plan Of Action: NB finds it unacceptable that correct documentation was not readily available for the FLA IEM review. NB does not accept the factory's excuse for not providing labor contract records for the IEM. NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:



Supplier CAP: Factory Response, March 2011: To avoid the reoccurrence of a similar case, the person in charge of keeping payroll documents was required to give their supervisor a key to their locker; therefore, these documents will be available at any time now. Intended deadline for remediation: November 25, 2010

Supplier CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with the factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Freedom of Association: Right to Freely Associate

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

Noncompliance

Explanation: FLA Comment: The Chinese constitution guarantees Freedom of Association (FOA); however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union - the All China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of FOA, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. However, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms. The Amended Trade Union Act of Oct. 2001 stipulates that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. Trade unions also have an enhanced role in dispute resolution. In Dec. 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.

Monitor's note: There was no trade union at the factory. There are no committees representing workers, either.

Plan Of Action: NB does not require any factory worker to be part of any union. NB expects our business partners to respect the right of employees to associate freely; this includes the right of workers to peacefully join or form groups whose primary purpose is to improve working conditions. NB respects the right to bargain collectively. In China, NB recommends the establishment of worker-only committees, supported by management with space to meet; paid time to organize; and materials available to record and store meeting minutes. NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name].

**Deadline
Date:**

**Action
Taken:** Factory Response, March 2011: Because the factory just moved to a new location at the end of last year, factory management and employees are currently attempting to establish a trade union in the factory under the guidance of a civic trade union. Deadline declared by factory: June 30, 2011. From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 08/27/2012

Freedom of Association: Grievance Procedure

FOA.26 Employer shall have in place written grievance procedures that allow first an attempt to settle grievances directly between the worker and the immediate supervisor but that, where this is inappropriate or has failed, it is possible for the worker to have the grievance considered at one or more steps, depending on the nature of the grievance and the structure and size of the enterprise. Employers shall ensure that the grievance procedures and applicable rules are known to workers. (P)

Noncompliance

Explanation: There were no written written grievance procedures at the factory.

Source: management interviews

**Plan Of
Action:** NB also found no grievance process during the last audit; therefore, NB assumes that the factory took no action. NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

**Deadline
Date:**

**Supplier
CAP:** Factory Response, March 2011: A grievance procedure has been established since the audit. Employees have been trained on this procedure. In the factory compound, a total of 8 suggestion boxes were installed to collect complaints from employees. The employees' complaints will be carefully treated by a high level of management and the related information is recorded. The written grievance procedure and the form for recording complaints have been sent for review. Factory declared deadline for completion: December 1, 2010

**Supplier
CAP Date:**

**Action
Taken:** From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 08/27/2012

Harassment or Abuse: Discipline/Training of Management

H&A.7 Employers shall ensure managers and supervisors are fully familiar with the factory disciplinary system and trained in applying appropriate disciplinary practices. (P)

Noncompliance

Explanation: The factory had policy and procedure for handling discipline. However, factory managers and supervisors were not familiar with the factory's disciplinary system and not trained in applying appropriate disciplinary practices.

Sources: document review, management interviews

Plan Of Action: In the last internal audit, NB found that the factory had Employee Handbook policies for training and professional review; incentives and penalties; disciplinary rules and a 3-step disciplinary process prior to termination. NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB suggests for all issues that [Employee name] (General Manager) takes charge of the review and implementation of his own policies. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:

Action Taken: Factory Response, March 2011: Factory management has been trained on disciplinary policy; in the future, this kind of training will be held periodically. Suggested deadline for completion: February 28, 2011 From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Child Labor: Child Labor

CL.2 Employers shall not employ children younger than 15 (or 14 where the law of the country of manufacture allows) or younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15. (S)

Noncompliance

Explanation: 1 worker currently below the legal age of 16 was found. The worker's birth date is December 12th, 1994. Their date of hire was June 2010.

Source: worker interviews

Legal References: PRC Labor Law, Article 15; Regulations Prohibiting Use of Child Labor

Plan Of Action: In the last internal audit, NB found that the factory had no written policy on child labor, including no minimum age for hiring and no ID verification checks in place. NB's corrective action plan requested these things to be implemented. Prior to the FLA IEM audit, no child labor issues were found. After the FLA IEM found this case of child labor, NB's internal auditor and the auditing manager for [Agency name] went to the factory to monitor this child November 20-24, 2010. NB's expectation of any instances of child labor found are for the factory to:

- To return the child worker to their home town/family/school with guardian/family member
- Fully pay return travel costs upfront; - Ensure the child continues to receive regular wage and school fees in exchange for school attendance report card
- Guarantee the child a job after turning 16, or when the child chooses to graduate

NB's last shipment before dropping this source in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date: 11/20/2010

**Supplier
CAP:** Factory Response, March 2011:

1. Factory HR staff ignored to verify the under-age worker's identity card.
2. The under-age worker has been sent to the [City name] Vocational School; all their school fees will be taken care by the factory. The term will be from December 2010 to November 2011; during this period, according to local minimum wage, RMB 960 will be paid to her as a living expense every month.
3. In order to prevent a similar case from happening in the future, the hiring procedure was improved and the verification of a candidate's age documentation was added; it will be implemented strictly. The school fees receipt; the agreement between the factory and the worker; the worker's school transcript; and testimony from the school have been sent for review.

Expected completion of case: November 2011

**Supplier
CAP Date:**

**Action
Taken:** From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 08/27/2012

Child Labor: Proof of Age Documentation

CL.3 Employers shall collect and maintain all documentation necessary to confirm and verify date of birth of all workers, such as birth certificates. In addition, the employers shall take reasonable measures to ensure such documentation is complete and accurate. (P)

Noncompliance

Explanation: 1. As the employee in charge of keeping documentation keeping was on personal leave, no employee roster was provided for review.

2. Due to the same reason in #1, no personnel file was provided for review.

Sources: 1) management interview 2) document review, management interview

Legal References: 1) PRC Labor Contract Law, Article 7; 2) LMI [2003] No. 9 III(II) (extracted), Article 4 of Regulations of Banning Child Labor Recruitment

Plan Of Action: It is unacceptable that monitors were denied access to any records during their assessment; all NB factories have been informed of the possibility of unannounced audits in writing. Should any key staff be on leave at any time, regardless of auditing taking place, it is NB's expectation that responsibilities are passed to a trained support team member or a member of the factory's Responsible Leadership team. NB's last internal audit did show that while personnel records were kept by factory management, they were incomplete. [Administrative Manager name] was the administrative manager at that time, but since then [Personnel Leader name] has become the Personnel Leader. NB's last shipment before dropping this source in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:

Supplier CAP: Factory Response, March 2011: To avoid the reoccurrence of a similar case, the personnel who is in charge of keeping the roster and personnel files was required to provide their supervisor with a key of their locker. Therefore, these documents will be available at any time now. A sample of the roster and a personnel file have been sent for review.



Supplier
CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Child Labor: Employment of Young Workers

CL.6 Employers shall comply with all relevant laws that apply to young workers (i.e., those between the minimum working age and the age of 18) including regulations relating to hiring, working conditions, types of work, hours of work, proof of age documentation, and overtime. (P)

Noncompliance

Explanation: 1. No government registration had been done for 2 juvenile workers found during worker interviews.

2. No health examinations were provided for 2 juvenile workers found during worker interviews.

Sources: document review. worker and management interviews

Legal References: 1) Legal Reference: Regulations for the Special Protection of Juvenile Employees (Document No.498), Article 9; 2) Legal Reference: Regulations for the Special Protection of Juvenile Employees (Document No. 498), Article 6

Plan Of Action: In the last internal audit, NB found that the factory had no legal young worker policy within factory management records and requested that the factory respect this requirement: "For Young Workers, follow China laws - Article 65 of China Labor Law and Article 9 of the Provisions for Young Worker Protection (Young Workers health check, registration with local labor bureau, no overtime, no hazardous work)." NB's last shipment before dropping this source in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:

Supplier CAP: Factory Response, March 2011: Since the audit, the procedure for protecting juvenile workers has been included in the HR management system. All juvenile workers will be provided physical inspection and registration. A photocopied registration form and body check form for current juvenile workers in the factory have been sent for review.

Supplier CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Code Awareness:

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

Noncompliance

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

Source: management interviews

Plan Of Action: NB's last audit revealed no written grievance policy or procedure in factory management records; NB suggested corrective action. NB's last shipment before dropping this source in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended that the factory's Personnel Leader, [Employee name], attend the Chinese government's HR training in 2010, but the factory did not plan to take action until February 2011.

Deadline Date:

Supplier CAP: Factory Response, March 2011: A confidential communication channel has been in place since the audit and the relevant information on a key contact person has been provided to the employees.

Supplier CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Health and Safety: General Compliance Health and Safety

H&S.1 Employers shall comply with all local laws, regulations and procedures concerning health and safety. (S)

Noncompliance

Explanation: The factory's actual address did not match the address in the business license.

Legal Reference: Regulations of PRC for controlling the registration of enterprises as legal persons, Article 17, If an enterprise legal person needs to change its name, residence, operation site, legal representative, economic nature, scope of business, mode of operation, registered capital, duration of operation, or increase or disband its branches, it should apply for registration of the alteration.

Plan Of Action: The factory's address at the beginning of our relationship was: [Address #1 name] . The address on communications through 2010-2011 was: [Address #2 name]. The FLA report does not show the incorrect addresses for NB to verify. NB agrees that compliance with law is paramount, and is surprised at the factory GM's negligence. NB's last shipment before dropping this source in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name].

Deadline Date:

Supplier CAP: Factory response, March 2011: Factory was moved to a new location at the end of last year. Now, the address of the factory matches the one showed in the business license. A photocopied business license has been sent for review. Intended factory remediation date is March 31, 2011.

Supplier CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Health and Safety: Written Health and Safety Policy

H&S.3 Employers are required to develop, maintain and regularly review a written health and safety policy. The policy must, at the very least, be aimed at complying with legal minimum safety and health standards, regulations and procedures. (P)

Noncompliance

Explanation: There was no written health and safety policy in the factory.

Sources: document review, management interviews

Plan Of Action: In the last internal audit, NB found that the Employee Handbook and management documents detailed a comprehensive health and safety training, including details of orientation trainings at a new worker's start and on-the-job trainings. The majority of expectations, except machinery guards and chemical safety, were met. Though EHS leader, [Employee name], was not previously trained, factory had agreed to recommended training throughout 2011. NB's last shipment before dropping this source in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name].

Deadline Date:

Supplier CAP: Factory Response, March 2010: The health and safety policy has been established and the relevant procedures have been developed. An example of the health and safety policy and procedures has been sent for review.

Supplier CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Health and Safety: Permits and Certificates

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

Noncompliance

Explanation: 1. No fire service inspection certificates or records were provided by the factory.

2. Workers operating the cargo lift in the production building did not have relevant operators' certificates.

3. Construction units did not compile Environmental Impact Report, Environmental Impact Report Form or fill out Environmental Impact Registration Form as per the above mentioned rules.

Source: document review

Legal References: 1) PRC Fire Prevention Law, Article 11; 2) Special Appliance Quality Safety Monitoring Regulation, Article 38; 3) Environmental Impact Assessment Law of the People's Republic of China Article 16

Plan Of Action: During NB's last internal audit, all inspections were up to date and NB concluded that management was au fait with the majority of legal EHS requirements. NB is disappointed that the factory did not quickly address their responsibilities: inspections should have taken place prior to moving labor into the new location. Furthermore, NB found that the factory's EHS systems did not address chemical management, and that EHS leader, [Employee name], was not previously trained in China's government chemicals course, as required by law. Factory had agreed to recommended training throughout 2011. NB's last shipment before dropping this source in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name].

**Deadline
Date:**

Supplier Factory Response, March 2011:

CAP:

1. The factory has been moved to a new location. Fire service inspection certificate has been sent for review.

2. The worker operating cargo lift has obtained a certificate after attending relevant training and her certificate has been sent for review.

3. The factory does have an Environmental Impact Report. Due to the unannounced audit and the receptionist's misunderstanding of the auditor's meaning, this report was not provided during the audit. It has been sent for review.

**Supplier
CAP Date:**

**Action
Taken:** From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 08/27/2012

Health and Safety: Evacuation Requirements and Procedure

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

Noncompliance

Explanation: No fire drill was arranged for workers in either the factory or the dormitory; no fire fighting techniques training was provided.

Sources: document review, management interviews

Legal Reference: Fire Prevention Regulation for Organ, Group and Enterprise, Article 40

Plan Of Action: During NB's last internal audit, we found that fire drills took place twice a year for all production and dormitory buildings. Records were available. However, we noted that some fire extinguishers were blocked and emergency evacuation floor arrows were substandard. NB subsequently found that Fire Safety Leader, [Employee name], was not trained in Fire Safety; therefore, NB requested that 20% of staff be trained through China's government training scheme. Factory's response was, "will attend fire safety training on May 15, 2011."

NB's last shipment before dropping this source in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name].

Deadline

Date:

Supplier CAP: Factory Response, March 2011: A fire drill plan has been developed. According to this plan, fire drills will be performed in the factory and dormitory twice a year. The first one of this year was in March 2011. Photos and records for the first fire drill this year have been sent for review.

Supplier CAP

Date:



Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Health and Safety: Machinery Maintenance and Worker Training

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

Noncompliance

Explanation: 1. No safety belt guard was equipped to 1 picot stitching machine.
2. Safety eye shields were not available for 40 overlocking sewing machines in the factory.

Source: factory tour

Legal Reference: Safety Manufacturing Law, Article 29

Plan Of Action: NB's last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name], which included machinery guarding and personal protective equipment.

Deadline Date:



Supplier CAP: Factory Response, March 2011: All picot stitching machines were equipped with belt guards; eye shields were equipped on overlocking sewing machines. Employees were trained on the importance of using protective equipment. The leader of each line is responsible for supervising employees using this equipment. Photos have been sent for review.

Supplier CAP

Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Health and Safety: Sanitation in Dormitories

H&S.28 All dormitories shall be kept secure, clean and have safety provisions (such as fire extinguishers, first aid kits, unobstructed emergency exits, emergency lighting etc.). Emergency evacuation drills shall also be conducted at least annually. (S)

Noncompliance

- Explanation:**
1. There were no fire extinguishers installed in the factory's female dormitory.
 2. There were no emergency lights installed in the factory's female dormitory.
 3. There was no exit sign affixed in the dormitory of the factory.
 4. Female dormitories were located on the 5th floor of 1 block of a 5-story production building.

5. Only 1 emergency exit was available in the female dormitory located on the 5th floor of 1 block of a 5-story building.

6. There were no evacuation plans posted, and no fire alarms installed in the female dormitory of the factory. There were no first aid kits available in the dormitories of the factory.

Source: factory tour

Legal Reference: 1) PRC Fire Prevention Law, Article 16 (2); 2) Fire Safety of Building Design Regulation (GB50016-2006), Article 11.3.3; 3) Fire Safety of Building Design Regulation GB50016-2006, Article 11.3.4.1; 4) Fire Safety of Building Design Regulation (GB50016-2006), Article 3.3.8; 5) Fire Safety of Building Design Regulation (GB50016-2006), Article 5.3.2

Plan Of Action: NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name], which included Fire Safety Management standards and law. At the time of NB's last audit, the factory did not provide dorms for workers, but instead gave a RMB 50 allowance to each worker, as a contribution to independent room costs. Therefore, we had not reviewed dorm living conditions and were not informed by the factory of the change in circumstances. NB's last shipment before dropping this source was in February 2011.

Deadline Date:

Supplier CAP: Factory Response, March 2011: Factory was relocated and female workers are living in a new dormitory. All noncompliances listed have been corrected. Photos have been sent for review.

Supplier CAP Date:

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

Plan Complete: Yes

Plan Complete Date: 08/27/2012

Hours of Work: Time Recording System

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

Noncompliance

Explanation: "Overtime hours," "overtime wages," and "minimum wages" issues could not be verified due to:

1. There were broken needle replace records June 14-16, 2010 (factory rest days, statutory holiday), but provided attendance records indicated that the relevant workers had rest days on those days.
2. There were transfer records on May 3, May 16, June 15, June 27, July 4, July 18, and July 25, 2010 (statutory holiday, factory rest day, Sundays), but provided attendance records indicated that all the relevant workers had rest days on those days.
3. Factory only used the symbols "/" and "v" in manual attendance records to record workers' attendance, without detailed in/out time or workers' signatures.

Sources: document review, worker interviews, broken needle record review, semi-finished products transfer records from cutting section to sewing section

Plan Of Action: NB would like the FLA to identify and engage the "other customers" to create a requirement for this factory on off-books overtime hours logging, discouraging this factory from creating double books. NB: last shipment before dropping this source was in February 2011. NB's Compliance Team delivered a comprehensive compliance training on site in March 2011, with [Agent name]. NB recommended the factory's Personnel Leader, [Employee name] attend China's government HR training in 2010, but factory did not plan to take action until February 2011.

Deadline Date:



Supplier CAP: Factory Response, March 2011: Because of other customers' requirements on compliance and strict limitation of working hours, not all OT was showed in the time records. After the audit, the policy for wage and working hours in the Employee Manual was revised; the importance of the accuracy of working hours was reiterated. Factory management was also trained on the revised policy for wage and working hours. HR staff were required to verify attendance records against production records periodically to ensure that all work hours were recorded accurately. The handbook's revised policy for wage and working hours and broken needle records have been sent for review.

**Supplier CAP
Date:**

Action Taken: From November 2010-March 2011, New Balance worked actively with this supplier to develop a remediation plan to address the findings raised by the IEM. However, due to other significant ongoing production problems, the sourcing team decided to permanently cease working with The factory at that same time. As a result, New Balance was unable to complete communication and implementation of the remediation plan.

**Plan
Complete:** Yes

**Plan
Complete
Date:** 08/27/2012
