

<b>FLA Audit Profile</b>	
Country	China
Factory name	080215438E
JEM	SGS-CSTC Standard Technical Services Co. Ltd.
Details in facility	October 30 - 31, 2008
PC(s)	Nordstrom, Inc., Nike, Inc.
Number of workers	8500
Product(s)	Garments
Production processes	Cutting, Embroidering, Sewing, Ironing, Trimming, Packaging

FLA Code/ Compliance Issue	Country Law/Legal Reference	FLA Benchmark	IEM Findings						Remediation			Status	Updates		
			Noncompliance	Risk of Noncompliance	Evidence of Noncompliance (un corroborated)	If not corroborated, explain why	Sources/Documentation used for corroborating	Notable Features Implemented by Management or Company	PC Remediation plan	Target Completion Date	Company follow up (Cite date of follow up)		Completed, Pending, Ongoing	Company Follow Up (March 17, 2007)	Company Follow Up (April 2008)
<b>1. Code Awareness</b>															
Worker/management awareness of Code		<b>FLA Principle of Monitoring, Obligation of Companies:</b> Ensure that all Company facilities, as well as contractors and suppliers inform their employees about the workplace standards orally and through the posting of standards in a prominent place in the local language (spoken by employees and managers) and undertake other efforts to educate employees about the standards on a regular basis.	Although the Nordstrom and Nike COC was provided and posted in the factory, the information was not communicated further and instruction was not given to both management and the workforce in the factory area.			Based on on-site observation and interview with workers and managements, it was identified.		Both PCs are reviewing how to further emphasize their training efforts within the factory.	16/2007	The factory advised that they had received COC training from both Nike and Nordstrom. Nike provides annual, in-factory training. Nordstrom has provided large group training sessions. Both companies are willing to further emphasize our training efforts. Nordstrom has asked vendor/factory how best to communicate this information to workers. PCs will discuss with FLA what further steps they require.	Completed	3/17/07: Nordstrom is participating in worker training project at the factory conducted by Verite, this project will include code of conduct training to the workers. The project started in 3/07.	4/3/08: The training project provided by Verite has been completed by the end of Dec., 2007. All employees were involved in the training program including COC information.		
Confidential noncompliance reporting channel		<b>FLA Principle of Monitoring, Obligation of Companies:</b> 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.	The PC (Nordstrom) did not have a confidential noncompliance reporting mechanism allowing workers to report complaints directly to the FLA affiliated company.			Based on on-site observation and interview with workers & managements, it was identified.		PCs priority to work with the factory to develop and/or strengthen existing avenues for worker concerns. Factory has in place 1) an open door policy, 2) suggestion boxes, 3) telephone number for grievances, 4) worker meeting twice monthly. PCs agreed that steps the factory has taken to address this concern are noteworthy. PCs discussed the pros and cons to a hotline directly to the brand and agree that our first priority would be to work with the factory to develop and/or strengthen existing avenues for worker concerns. PCs to follow up with both FLA and factory.	01/05/2007 to ask FLA for further guidance.	12/06/2008 Both PCs visited the factory to review audit results. The factory advised that they have in place 1) an open door policy, 2) suggestion boxes, 3) telephone number for grievances, 4) worker meeting twice monthly. PCs agreed that steps the factory has taken to address this concern are noteworthy. PCs discussed the pros and cons to a hotline directly to the brand and agree that our first priority would be to work with the factory to develop and/or strengthen existing avenues for worker concerns. PCs to follow up with both FLA and factory.	Completed	4/3/08: Nike follow-up the factory has taken action to ensure the current grievance system running more efficiently and each grievance case could be handled promptly and effectively. The tracking reports are sent by consolidated form and person from the Admin in charge of the grievance letters from suggestion boxes, and grievance cases will be posted regularly for employees' instruction.			
<b>2. Forced Labor</b>															
There will not be any form of forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise.															
<b>3. Child Labor</b>															
No person will be employed at an age 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.															
<b>4. Harassment or Abuse</b>															
Every employee will be treated with respect and dignity. No employee will be subject to any physical, sexual, psychological or verbal harassment or abuse.															
<b>5. Nondiscrimination</b>															
No person will be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.															
<b>6. Health and Safety</b>															
Employers will provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of employer facilities.															
<b>7. Freedom of Association and Collective Bargaining</b>															
Freedom of Association: FLA Comment		<b>FLA Comment:</b> 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.													
Employer Interference/Escions		Workers' organizations have the right to elect their representatives and conduct their activities without employer interference.	The factory did not have independent worker representatives elected by workers.			Based on document review and interview with management and workers.		PCs to work with the factory to implement or further develop stronger avenues for worker representation in addition to what is already established in the factory. PCs to request guidance from FLA.	16/2007	Both PCs felt that the efforts made by the factory to involve workers in the decision-making process regarding issues of concern for them were noteworthy. However, PCs also recognize that the lack of a formal committee and formal documentation of the efforts currently in use could be construed as a lack of effort in this area. PCs discussed with the factory the need to formally document all steps they have taken to address worker issues and involve workers in decision-making. Nordstrom's position on FOA is that we ask our partners to respect workers' rights to freely associate and collectively bargain. Due to the situation in China, we have asked factories to work towards developing a formal committee with elected worker representatives in lieu of a formal union.	Pending		4/3/08: The current employee representative committee holds a conference every two months and focuses on administration services such as canteen service and transportation, etc. The members/sitesides come from each section. Everyone could be the representatives. No formal selection is necessary.		
<b>8. Wages and Benefits</b>															
Employers recognize that wages are essential to meeting employees' basic needs. Employers will pay employees, as a base, at least the minimum wage required by local law or the prevailing industry wage, whichever is higher, and will provide legally mandated benefits.															
Record Maintenance		All compensation records will be maintained accurately and should be acknowledged by the employee as accurate.	There were inconsistencies between production records and attendance records. Workers' actual wages could not be verified.			Based on on-site observation and confirmed through the interview with workers.		PCs discussed with factory the need for complete and accurate documents. Factory was informed that PCs position regarding wages and hours should be provided for review regardless of violations in these categories. PCs advised factory that regardless of violations uncovered in document review, PCs would commit to continuous improvement remediation plan with factory based on same commitment from factory to provide accurate documents and make improvements.	To be evaluated upon future re-audit and further documentation review.	During 12th visit, issue was discussed at length with factory. Factory was responsive and willing to make commitment.	Completed		4/3/08 Nike follow-up: All documents including payroll journals, time-card records are kept well and credible.		

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<b>9. Hours of Work</b>														
Except in extraordinary business circumstances, employees will (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country will not limit the hours of work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period.														
Overtime Limitations	China Labor Law, Article 41: The employing unit may extend working hours due to the requirements of its production or business after consultation with the trade union and laborers, but extended working hour for a day shall generally not exceed 1 hour. If such extension is called for due to special reasons, extended hours shall not exceed 3 hours a day under the condition that the health of laborers is guaranteed. However, total extension in month shall not exceed 36 hours. China Labor Law, Article 38: The employing unit shall guarantee that its staff and workers have at least 1 day off in a week.	Except in extraordinary business circumstances, employees will (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country will not limit the hours of work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period. An extraordinary business circumstance is a temporary period of extra work that could not have been anticipated or alleviated by other reasonable efforts.	Based on the production records, through cross-checking the time card records and payrolls, it was noted that there were inconsistencies between production records and electronic time card records and payrolls. I.e. Some sewing production records and production injury and medicine using records showed that some workers worked on 9 July, 13 Aug., 29 Oct., of 2006, but working time card records and payrolls showed those days were off days. Due to the above mentioned inconsistencies, workers' working hours could not be verified. Comments: For reference, based on electronic time card records provided by the factory, in June - Aug. of 2006, most workers overworked 2-3 hours/day and OT hours were around 80-110 hours per month. Most workers worked 13 days consecutively without one day off. And based on time card records provided by the factory, in June - Aug. of 2006, most workers worked 65-70 hours/week			Based on the production records and time card records, the inconsistencies were also confirmed through the interview with workers.	PCs discussed with factory the need for complete and accurate documents. Factory was informed that PCs position regarding wages and hours should be provided for review regardless of violations in these categories. PCs advised factory that regardless of violations uncovered in document review, PCs would commit to continuous improvement remediation plan with factory based on same commitment from factory to provide accurate documents and make improvement.	To be evaluated upon future re-audit and further documentation review.	During 12th visit, issue was discussed at length with factory. Factory was responsive and willing to make commitment.	Pending		4/3/08 Nike follow-up: factory taken action to strictly control OT working hours since Dec 2007. Per OT control system, factory takes 3 steps for surveillance and controlling: 1) manufacturing dept arranges OT according to monthly OT plan, E.g. 2 hours per normal work day, total weekly hours in 80 hour limit, etc. But manufacturing dept needs to apply excessive OT for unusual case such as OT on Sunday, no day off in 7, etc. In these cases application shall be submitted to top management at least 24 hours in advance; 2) top management will approve OT application according to production requirement; 3) improved OT application will be informed to each service section, HR, Admin, Security, etc. Security guards will cross check and let employees enter factory to do OT work in weekend after confirming employees from OT approved manufacturing departments. Through this method, all employees' OT has been recorded well and no OT without time card records happened any more. However, per provided records and factory visits, excessive OT limit as well as no day off in 7 days has been violated in 2007 due to overload capacity. Factory has testing and weaving sections, which each have different peak seasons. Currently about 9000 employees in factory (name). About 2000 employees (22%) did excessive Weekly working hours (Max. 70hrs) and no day off in 7 days, even 14 days in January and March, 2008. It seems factory couldn't control OT under limit in a short time.		
<b>10. Overtime Compensation</b>														
In addition to their compensation for regular hours of work, employees will be compensated for overtime hours at such premium rate as is legally required in the country of manufacture or, in those countries where such law will not exist, at a rate at least equal to their regular hourly compensation rate.														
Accurate recording of OT hours worked		Employees will be paid for all hours worked in a workweek. Calculation of hours worked must include all time that the employer allows or requires the worker to work.	There were inconsistencies between production records and attendance records, overtime hours could not be verified.			Based on the production records and time card records, the inconsistencies were also confirmed through the interview with workers.	PCs discussed with factory the need for complete and accurate documents. Factory was informed that PCs position regarding wages and hours should be provided for review regardless of violations in these categories. PCs advised factory that regardless of violations uncovered in document review, PCs would commit to continuous improvement remediation plan with factory based on same commitment from factory to provide accurate documents and make improvement.	To be evaluated upon future re-audit and further documentation review.	During 12th visit, issue was discussed at length with factory. Factory was responsive and willing to make commitment.	Completed		4/3/2008 follow-up by Nike: The line workers are paid by piece-rate. The piece-rate quota is set up reasonable to ensure at least 70% employees could meet it in their performance complying with the law. According to the provided payroll journals and time records, all line workers' monthly piece-rate is higher than the local minimum hourly rate (MINSLPT before April, 2008), the provided lowest piece-rate is PMSA 1.2. The factory explains that they will adjust it to PMSA 4.3 as same as the updated local minimum hourly rate since April, 2008. All employees' OT hours have been paid accurately according to the Labor Law.		