

<h2 style="text-align: center;">Chengda Corporation</h2>	<p><b>General Remarks:</b> Chengda has three branch factories: Chengda #1, #2 and #3. The adidas Group has production only in the Chengda #2 plant which produces for Rockport, Reebok and Timberland. adidas Group orders represent no more than 10% of the total orders of Chengda Corp. Chengda has been previously independently audited by the FLA and is subject of regular monitoring by the adidas Group Social and Environmental Affairs team.</p>	
<b>Issues Raised in CLW Report</b>	<b>Comments</b>	<b>Follow-up Action</b>
<p><b>Workers worked about 10 to 12 hours daily</b></p>	<p>Based on our audit records of the Chengda #2 plant we can confirm that workers typically work 11 hours, excluding lunch break of 1.5 hours and dinner break of 1 hour.</p>	<p>No specific follow-up action required.</p>
<p><b>Many interviewed workers are not certain whether they are insured or not</b></p>	<p>At the Chengda #2 plant workers have 100% coverage for work-injury insurance, which is fully paid for by the factory. The factory also has put in place Commercial Group Medical Insurance for all employees which is fully paid for by the factory.</p>	<p>In terms of government social insurance schemes, the factory has still to achieve 100% coverage for pension, medical and unemployment insurances. A plan has been developed for progressive expansion of the insurance coverage with pension and unemployment insurance reaching 50% coverage by July 2009. State Medical insurance will reach 100% coverage by October 2008.</p>
<p><b>It's very difficult for workers to quit during probationary period and the only way is to leave voluntarily while forfeiting a great proportion of their wages. Any violation (against resignation process requirement) will result in wage arrear or a lawsuit.</b></p>	<p>We have not received worker complaints or feedback from worker interviews that would indicate that workers are having difficulties with terminating their contracts during the probation period. During the probation period, workers are only required to give 3 days advance notice if they intend to quit. Workers can indicate how their last payment should be made in the Resignation Sheet: either by bank transfer or cash payment. Payment by bank transfer will be transacted at the coming salary payment date, whereas cash settlements are completed within three days after resignation.</p>	<p>No further action until clarification is given by CLW as to which factory they are referring to.</p>

<p><b>They (the workers) would be asked to work on Sunday and rearrange for another day off instead of paying 200 percent of overtime wage....A Chengda trainer has said that there is no overtime premium. In other words, workers are still paid by the regular piece-rate when working overtime.</b></p>	<p>Based on our regular auditing of the Chengda #2 plant we have not found evidence of the practice outlined. There may be different policies in different factories. At Chengda #2, any Sunday work must be compensated by 200% multiplier in accordance with the law. The factory must also provide an additional day's compensation, in accordance with the adidas Group's working hours policy.</p>	<p>No further action until clarification is given by CLW as to which factory they are referring to.</p>
<p><b>Chengda generally distributes wages from the 28th to the end of each month; workers are still unfamiliar with the wage calculation details.</b></p>	<p>Yes, at Chengda #2 the current pay day is the end of each month. The pay slip which is given to workers details the monthly base, which includes normal working hours, overtime hours and compensation, paid leave, living allowance, performance points and performance bonus and deductions. We can confirm that as part of a new employee orientation workers are shown how to calculate their wages and read the pay slip. Information is also provided in the worker handbook.</p>	<p>Although not mandated under the Chinese Labour Law, the adidas Group's compliance policies require prompt payment of wages for all work completed. Effective from the end of 2008 the factory has agreed to pay wages on the 15th day of each month.</p>
<p><b>Workers who do not return to the dormitory by 11 pm will be written down by the security.</b></p>	<p>Workers are entitled to and given the free choice to live either in the dormitory or secure accommodation outside the factory grounds. When they choose to live in the dormitory they are required to abide by the regulations which have been put in place for the security of those workers using the dormitory. The dormitory regulation states that a worker's name will be recorded and they will receive a verbal warning if they return after 24:00.</p>	<p>No specific follow-up action required.</p>
<p><b>Chengda deducts 160 RMB monthly meal fee from all workers regardless of whether or not they choose to dine in the workers canteen.</b></p>	<p>Yes, currently Chengda deducts a standard monthly fee of 160 RMB for meals, irrespective of whether they are always eaten in the canteen. This is an issue that has already been raised with the factory by the compliance team in 2007. The factory ran a trial last year but this proved a failure. Effective from September 2008 the workers will be able to choose to dine in the factory, or not, on a monthly basis and will only be charged if they eat meals in the factory canteen.</p>	<p>Update CLW when the scheme takes effect and ask for feedback on worker concerns.</p>
<p><b>There was a case that a worker ran into an argument with the canteen security and was beaten up and fired.</b></p>	<p>We have not heard of this case, and have received no complaint or feedback during our worker interviews.</p>	<p>CLW to confirm whether this incident involved a worker from the Chengda #2 plant. CLW to provide more detailed information to enable the adidas Group</p>

		to further investigate.
<b>No pre-employment safety training; Chengda does not provide safety training to workers; instead, workers can only depend on themselves in figuring out the safest way to work.</b>	Based on our direct observations of the operations at the Chengda #2 plant we can confirm that new employees participate in a "3-Layers of Safety" training, which includes chemical usage. The first layer of safety training is conducted prior to the workers being sent to shop floor and includes general safety training, fire safety and general machine safety.	No further action until clarification is given by CLW as to which factory they are referring to. CLW to provide more detailed information to enable the adidas Group to further investigate.
<b>Do not have any safety equipment...Only when audits are taking place would Chengda begin to distribute face masks.</b>	The adidas Group monitoring team undertakes both announced and unannounced audits. Based on our direct observations and monitoring of the operations at the Chengda #2 plant we can confirm that the factory has job hazard analysis in place, according to which PPE is provided to those who need it. Free rubber gloves and masks are provided to workers of chemical operations. The replacement frequency is set according to the hazard risk.	No specific follow-up action required.
<b>Since the water is not enough for everyone, some supervisors would ask workers to put in some money to buy water.</b>	Again, based on our monitoring visits to Chengda #2 we can confirm that the plant has its own purifying water system and that free purified water is provided to all employees without any quota.	No further action until clarification is given by CLW as to which factory they are referring to.
<b>Warning by bonus deduction</b>	All workers are paid an hourly rate salary. Production workers receive performance bonuses based on individual performance and productivity. Those bonuses must be above the total wages that would otherwise be received, based on standard and overtime hours worked. The factors that determine the percentage of the bonus include: monthly output, quality and individual performance.  Reduced bonuses can be paid when targets or full attendance are not met, but such systems must be transparent and easily understood by the workers.	The adidas Group Workplace Standards do not permit factories to levy fines or make deduction from basic wages of workers. We will verify through worker interviews and a review of the payroll records to see if a penalty or warning system is being used in breach of our Standards.

<b>Bank account for 15 RMB, health examination fee is 30 RMB, the factory housing ID is 35 RMB.</b>	In the past, the factory paid the bank account opening fee of RMB 5, which was subsequently charged back to workers. The current practice is that all workers are required to open their own bank accounts before taking up employment in the factory. A resident ID (which CLW has termed a "housing" ID) costs RMB 35 and is paid for by the worker to the local government, not the factory. It is a commonly held practice in China that newly hired employees bear the cost of their pre-employment Health Certificates. We do encourage suppliers, as a matter of best practice, to pay these costs directly, but this is not mandated by government regulations.	No specific follow-up action required.
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<h2 style="text-align: center;">Chang Ye Long Group</h2>	<p><b>General Remarks:</b> The Chang Ye Long Group has three branch factories: Yuan Dong (for baseball), Chang Ye Long (for soccer) and Long Yang Chang (for gloves). The adidas Group has production in only one of these factories: Long Yang Chang. Our order volume represents no more than 5% of the total volume of the factory. We can therefore only comment on the plant where we have production. Please note that other major sports goods brands are also sourcing from the Chang Ye Long Group.</p>	
<b>Issues Raised in CLW Report</b>	<b>Comments</b>	<b>Follow-up Action</b>
<p><i>Contract and Hire</i></p>		
<p><b>Contract duration is two years including a two months probationary period. Though there are two copies of contract, after worker signs it, the factory takes both of them away immediately. (page 1)</b></p>	<p>The majority of the workers at Chang Ye Long hold two year contract terms, with less than two months probation. A smaller number have three year contract terms, with two months probation.</p> <p>All workers are required to have a copy of the signed contract registered with the local authority. At times workers may have to wait for a copy of the contract to be returned after processing (registration) by government.</p>	<p>If workers are being denied a copy of their employment contracts this would be a breach of the adidas Group Workplace Standards. The factory will have to demonstrate that all workers hold a copy of their contract. We will verify this through an interview with workers and the factory management.</p>
<p><i>Work Hours</i></p>		
<p><b>Workers often do not even have one off day a month.</b></p> <p><b>Overtime is compulsory (page 2)</b></p>	<p>Our own monitoring has indicated a problem over working hours during the peak season and we have required Chang Ye Long to make improvements in the production area of the Long Yang Chang factory. We can not comment on the conditions and hours at the two other factories.</p>	<p>Overtime must be a voluntary process and the factory will have to demonstrate to us that they have proper systems in place for workers to voluntarily sign on for overtime when it is being offered. We will verify this through an interview with workers and the factory management.</p>
<p><b>Workers would have to sign up with the supervisor and report the time for leave.</b></p> <p><b>Workers receive nothing even after they file complaint to the Human Resource office. (page 2)</b></p>	<p>We have found no evidence of this in our monitoring of the Long Yang Chang plant. Where the workers interviewed from one of the other factories within the Chang Ye Long Group?</p> <p>We can confirm that the Long Yang Chang plant has a grievance system in place for resolving workplace disputes or complaints. Based on our audit records the factory has received and resolved 8 complaints this year. Please also note that Chang Ye Long is currently</p>	<p>No further action until clarification is given by CLW as to which factory they are referring to.</p>

	enrolled in a FLA worker grievance programme to improve the function and effectiveness of their grievance system.	
<b>Wages and Remuneration</b>		
<b>Upon recruitment, factory charges a 30 RMB fee for factory ID process and promises that the fee will be reimbursed before retirement. (page 2)</b>	Based on our audit records we believe Long Yang Chang is charging RMB 10 (not RMB 30 as stated) for their ID cards. We have already communicated to the factory that this practice must stop.	Verify that the factory has ceased charging for factory ID cards during next audit visit.
<b>Some workers have said that uniform is free, while some suggested that although Chang promises the free uniform, the factory would deduct its cost from workers' first month wage. (page 2)</b>	We can confirm that Long Yang Chang provides two sets of uniforms to workers free. Any replacement will be charged, a practice that we do not accept.	Pay records to be checked to determine whether deductions are being made for uniforms. If they are we will require the factory to immediately stop this practice.
<b>Workers often complain about the situation of wage arrears at Chang.  Chang pays in the form of cash without any explanation of pay details. (page 3)</b>	The pay day of Long Yang Chang which produces for adidas is on 7 <sup>th</sup> or 8 <sup>th</sup> day of every month. Perhaps CLW are referring to the ball production areas. The workers receive a pay slip when they are paid in cash. The pay slip includes gross income, OT hours, OT premiums, net income, and the deductions (insurance, food and dormitory, income tax, etc).	No further action until clarification is given by CLW as to which factory they are referring to.
<b>Chang only purchases insurances for workers upon their request. Each month insurances cost 79 RMB. (page 3)</b>	Currently, all workers are covered for work-injury insurance and Commercial Medical Insurance, 100% of which should be at the factory's expense. Only 30% of workers are currently entitled to pension and other insurances, which should reach 50% by October 2008.	As part of our existing monitoring programme we have been working with Long Yang Chang on a progressive plan to improve insurance cover. We will cross-check the charges stated for insurance.
<b>Workers reported that there are no paid vacations, subsidy, bonuses and etc. at Chang. (page 4)</b>	Based on our monitoring of Long Yang Chang we understand workers are entitled to paid sick leave, maternity, marriage, funeral, and other annual leave.	We have not seen evidence or received worker complaints of unpaid vacations, etc. CLW to provide further details to enable us to investigate.
<b>Canteen and Dormitory Conditions</b>		
<b>They suggest the canteen sanitation needs to be improved. Chang often dumps the leftover in the sewers by the canteens and workers passing these sewers often complain about the foul smell. (page 3)</b>	The supporting guidance to our Workplace Standards sets out strict requirements in terms of waste disposal and hygiene in both kitchens and canteens.	We will arrange a visit to review the factory's waste disposal practices and the effectiveness of the sewer system.
<b>Work Conditions</b>		

<p><b>In most cases, workers are given gloves only when clients are visiting the factory. (page 4)</b></p>	<p>Based on our monitoring records at the Long Yang Chang plant we can confirm that workers are provided with proper PPEs. Also, the factory has a full time staff member in charge of distributing, maintaining, replacing and recording the PPE.</p> <p>We cannot comment on the HSE conditions in the other factories belonging to the Chang Ye Long Group.</p>	<p>No further action.</p>
<p><b>In the summer of 2006, a packaging worker's thumb was crushed by machine. The damage to the machine and the worker was so severe that the machine had to be taken apart. The worker, on the other hand, was given a one month paid work-injury leave. However, since the worker did not have insurance, the factory refused to pay for the medical treatment required and merely recommended the worker to purchase insurance in the near future. (page 4)</b></p>	<p>Based on our monitoring records we can find no evidence of such a case in 2006 at the Long Yang Chang plant.</p> <p>There was a similar case in 2005 and we can confirm the worker was paid full legal compensation. At the time of the injury the factory paid for the worker's medical fees and continued to pay the worker's wages during the period of the medical leave.</p>	<p>No further action.</p>
<p><b><i>Awards and Penalties</i></b></p>		
<p><b>One point = 10 RMB (page 4)</b></p>	<p>Workers (other than those employed on a fixed hourly rate) receive a performance bonus based on individual performance and productivity. Those bonuses must be above the total wages that would otherwise be received, based on standard and overtime hours worked. Reduced bonuses can be paid when targets or full attendance are not met, but such systems must be transparent and easily understood by the workers.</p>	<p>The adidas Group Workplace Standards do not permit factories to levy fines or make deductions from basic wages of workers. We will verify through worker interviews and a review of the payroll records to see if a penalty system is being used in breach of our Standards.</p>

<p style="text-align: center;"><b>Supercap</b></p>	<p><b>General Remarks:</b> This factory produces caps for a range of adidas Group brands, which together accounts for less than 10% of Supercap's total output. Overall Supercap produces for over 40 international brands. The factory was audited in 2006, 2007 and twice in 2008 by the adidas Group social compliance team. Supercap was also independently audited by the FLA in 2007.</p>	
<p style="text-align: center;"><b>Issues Raised in CLW Report</b></p>	<p style="text-align: center;"><b>Comment</b></p>	<p style="text-align: center;"><b>Follow-up Action</b></p>
<p><i>Contract and Hire</i></p>		
<p><b>Trainings are only provided to workers who entered the factory during slow season, during the peak season, workers would be asked to begin working without any training. Trainings lasts from 15 days to one month, during this period, Supercap covers food and housing though no payment will be made to workers. (p.1)</b></p>	<p>Orientation training is provided to each new employee when hired, regardless whether it is peak or low season and relevant records are maintained. We have found no evidence nor have we received complaints from workers that workers are failing to be paid during their probation or training period.</p>	<p>CLW to provide more detailed information to enable the adidas Group to further investigate.</p>
<p><b>Supercap signs contract with workers, though workers are unable to preserve a copy.</b></p>	<p>We have not received worker complaints or feedback from worker interviews that would indicate that workers are having a difficulty with their contracts. Worker sign contracts in duplicate and are provided a copy. This is confirmed in a separate "Contracts receipt form" which they sign to show that they have received a copy of their contract.</p>	<p>No specific follow-up action required.</p>
<p><b>At Supercap, the factory's peak season is from September to January and slow season is from February to August. On average, workers work about 11 hours a day, six days a week. Overtime is compulsory; workers from hat production district said that they would work until 11PM or 12AM about two three times a month.</b></p>	<p>We fully accept that excessive working hours remain a challenge in China, especially in factories such as Supercap where there are multiple buyers and seasonal peaks in orders. Currently the weekly working hour of Supercap workers is no more than 60 hours which is a significant improvement over past years.  In accordance with our Standards any overtime worked must be voluntary.</p>	<p>Overtime must be a voluntary process and the factory will have to demonstrate to us that they have proper systems in place for workers to voluntarily sign on for overtime when it is being offered. We will verify this through an interview with workers and the factory management.</p>
<p><i>Work Hours</i></p>		

<p><b>Wednesday, and Friday to have overtime. On the other hand, Adidas regulates that overtimes cannot be scheduled on Wednesdays, Saturdays and Sundays. (page 2)</b></p>	<p>The adidas Group has no such requirement for overtime arrangements. We operate a working hour policy where factories have to seek specific approval if they wish to swap regular workdays for Sundays or Public Holidays.</p>	<p>No specific follow-up action required.</p>
<p><b><i>Wages and Benefits</i></b></p>		
<p><b>Each package typically contains 36 hats. Although there are some packages that contain 38 or more hats, supervisors still calculate workers' wages by 36 hats rather than the actual number. (page 3)</b></p>	<p>Supercap operates three "packages" of work for which there are piece rates. These packages comprise 24, 36 or 72 caps. It is the workers themselves who fill out their information on the total pieces they have made. Supervisors should only cross-check.</p>	<p>We will review the pay calculation based on recorded pieces to ensure that workers are being paid in accordance with the work completed.</p>
<p><b>Supercap provides dormitory at cost to workers who wish to house onsite. Each month the factory deducts 45 RMB from each piece-rate worker's wage and 50 RMB from each hourly worker's wage. The factory does not charge workers who live offsite.</b></p>	<p>It is common practice in China for factories to charge a basic fee for dormitory accommodation. These charges are normally significantly lower than the cost of offsite accommodation. Based on the information we hold, the monthly dormitory charge is RMB 30 for each employee. There is not any difference between the piece-rate and hourly rate worker.</p>	<p>No specific follow-up action required.</p>
<p><b>Even if one asks for a sick leave and does not dine in the canteen, he would still be asked to pay for the meal fee for the day.</b></p>	<p>Workers are able to be credited for any meal deduction if they report their leave request to the HR department.</p>	<p>We will cross-check to ensure that workers who are granted sick leave and therefore are unable to use the canteen are not deducted fees for meals.</p>
<p><b><i>Living Conditions and Food</i></b></p>		
<p><b>If one is caught eating a high-class meal when he has standard meal plan, he would be fined 6 points/100 RMB penalty. Workers can cancel the meal plan upon submitting a request to manager and financial office. If a worker is caught dining in the factory canteen without a meal plan, he will be fined 165 RMB, equivalent to the cost of a one month standard meal. (page 4)</b></p>	<p>We have enquired with Supercap's HR staff. They state that the factory has no such regulation or practice in place.</p>	<p>The adidas Group does not permit the use of fines or penalties as a disciplinary measure.  CLW to provide more detailed information to enable the adidas Group to further investigate.</p>
<p><b>When asked about the food conditions, workers have said that they can rarely find any meat in a meat dish and that the food quality five years ago was much better than what they have now.</b>  <b>There is also a mini-mart in business at Supercap though workers complain about the</b></p>	<p>The quality and quantity of food is a common concern for workers and a topic that they are often very forthright about in their comments. During our monitoring visits we inspect the kitchens as well as the food which is being served in the canteens.  Where food outlets and markets are run on a commercial basis within the grounds of a factory, then</p>	<p>The adidas Group will interview management and workers to determine whether there has been a deterioration in the standard of the food provided by the factory in its canteens. We will also review the pricing of goods sold at the mini-mart.</p>

<p><b>high prices.</b></p>	<p>the outlet should be setting prices according to the general market conditions in the area. If the mini-mart is overcharging for goods then the factory management must review the terms of the contract for the service provider.</p> <p>We actively encourage suppliers to create discount stores within the workforce, so that workers benefit from the wholesale prices. We also encourage the establishment of worker cooperative run food stores and have issued guidance on this to our factories in China.</p>	
<p><b>Health &amp; Safety</b></p>		
<p><b>Workers at cementing positions do not have face masks or aprons. There are chemicals such as glue, “cleaning water”, and gun oil that appear to be hazardous to people if exposed directly. Direct exposure to these chemicals result in skin peeling and etc.</b></p>	<p>Domestic washing powder is mixed with water for cleaning purposes and this does not pose a hazard to the workers. Machine oil is used on equipment, as part of general maintenance. Glues are applied to the brims of the caps. The chemical content of the glue has been checked for their hazardous content and have met our standards. Based on our own on-site observations PPE (face masks and gloves) are provided and are being worn by worker’s gluing the caps.</p>	<p>No specific follow-up action required.</p>
<p><b>Schedule and Medical</b></p>		
<p><b>The factory often refuses to provide any medical compensation. For example, according to workers, there has been at least one work injury case a month for five consecutive months and four of these injured workers are financially responsible for injury caused at work while only one worker received 4,000 RMB as compensation. Furthermore, workers said if an injured worker requests for compensation directly to the high management, after a complex procedure and upon the approval of the factory manager and assistant managers, he is able to receive a portion of the requested compensation. (page 4)</b></p>	<p>With respect to work injuries and medical insurance we have verified that Supercap has 100% coverage in place for the workforce. The insurance covers all medical expenses for work-related injury and there should be no charges, or direct costs, borne by workers. The factory also has formal obligation to assist workers with their claim for accident compensation from local government.</p>	<p>CLW to provide more detailed information to enable the adidas Group to further investigate.</p>
<p><b>Penalties and Bonuses</b></p>		

<p><b>Each point deducted is equivalent to 15 RMB. (page 5)</b></p>	<p>There is a clear policy in the worker handbook that no deductions are permitted against wages. Workers with good performance can obtain a bonus. We understand for each point accrued workers are able to secure RMB 15.</p>	<p>No specific follow-up action required.</p>
<p><i>Other Conditions</i></p>		
<p><b>Workers would need to swipe card and be searched by securities before entering or exiting. (page 5)</b></p>	<p>No body searches of workers are permitted, but they must abide by the security process that is in place as they enter and leave the factory.</p>	<p>No specific follow-up action required.</p>